NORTH EAST LINCOLNSHIRE COUNCIL
www.nelincs.gov.uk

# NORTH EAST LINCOLNSHIRE COUNCIL

# STATEMENT OF ACCOUNTS 2010/11

Subject to Audit

29 JUNE 2011

# CONTENTS

# EXPLANATORY FOREWORD

**Introduction**

The Statement of Accounts comprises:

- A Statement of Responsibilities for the Statement of Accounts
- The Core Accounting Statements
- Notes to the Accounts
- Supplementary Accounting Statements

The Annual Governance Statement is not part of the Statement of Accounts, but is required to be included alongside it in the same publication.

## International Financial Reporting Standards

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. It has been prepared, for the first time, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), which is based on International Financial Reporting Standards (IFRS), and the Best Value Accounting Code of Practice 2010/11. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non current assets.

Accounts preparation on the basis of IFRS is a major change from previous years, when the accounts were prepared in accordance with the UK Generally Accepted Accounting Principles based Statement of Recommended Practice (the SORP). The impact of this change is summarised in the accounting policies within the notes to the financial statements.

The objective of each of the accounting statements is:

- Comprehensive Income and Expenditure Statement – a summary of the resources generated and consumed by the Council in the year.
- Movement in Reserves Statement – shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.
- Balance Sheet – sets out the financial position of the Council as at 31 March 2011. It summarises non current assets held, current assets employed and current and long-term liabilities along with the balances and reserves available to the Council.
- The Cash Flow Statement – this statement summarises the inflow and outflow of cash arising from transactions with third parties for revenue and capital purposes.
- The Collection Fund – shows the level of Non-Domestic Rates and Council Tax that has been received by the Council during the period and the distribution of these funds.

The following paragraphs provide an overview of the Council's financial performance during 2010/11 and position at 31 March 2011.

**Revenue Spending in 2010/11**

Revenue spending is generally on items that are consumed within a year, and is financed from government grants, council tax, nationally redistributed business rates and other income (largely charges to service users). The Comprehensive Income and Expenditure Statement details how much was spent during 2010/11.

Due to the technical accounting requirements of local authority accounting the £13.3m surplus on the Comprehensive Income and Expenditure Statement is not representative of the Council's actual spending against council tax raised.

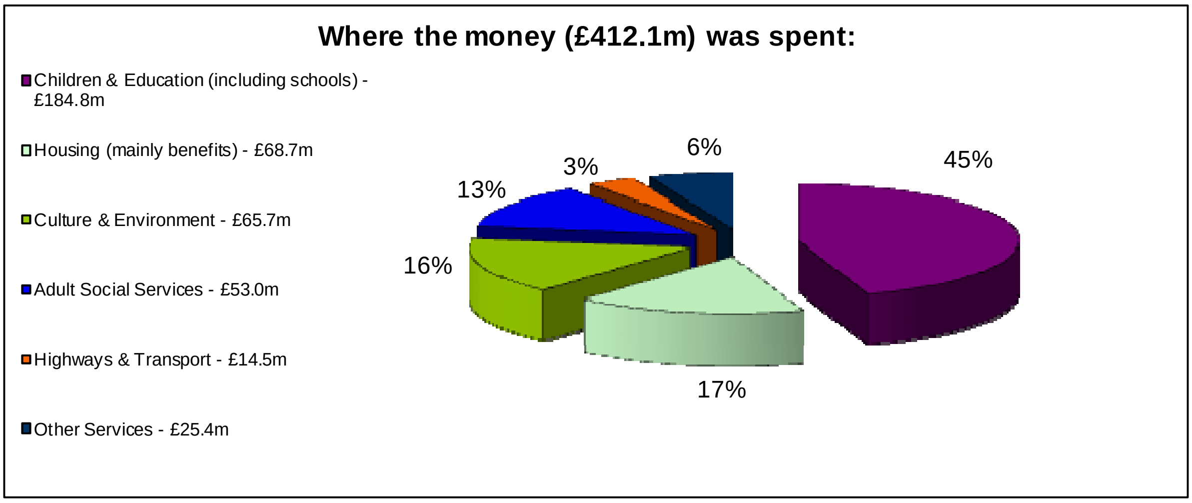
The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is specified by the Best Value Accounting Code of Practice.

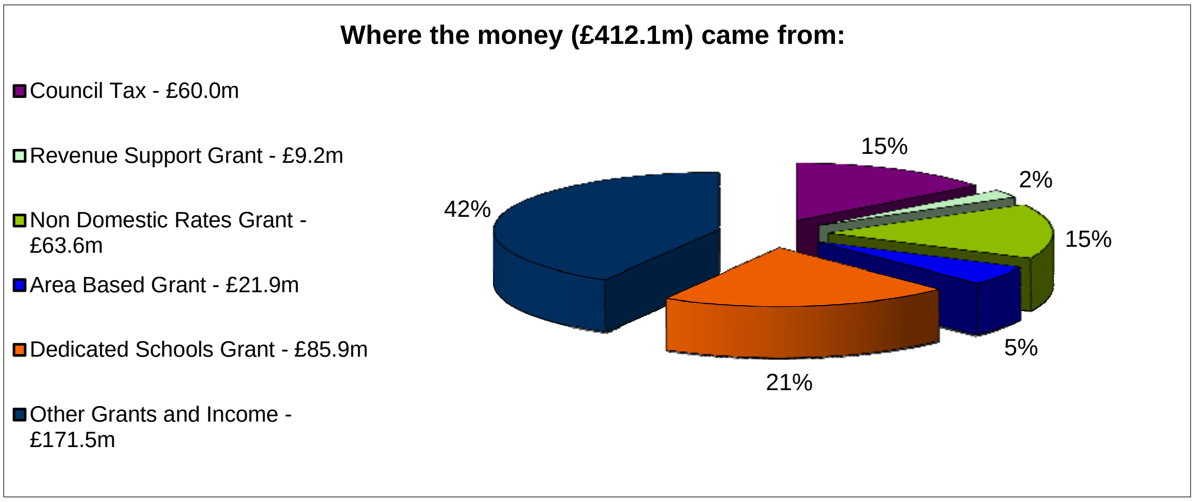
Decisions about resource allocations are taken by the Council's Cabinet on the basis of budget reports analysed across directorates.

These reports are prepared on a different basis from the accounting policies used in the financial statements and a reconciliation between the two bases is prepared as a separate note to the accounts, entitled 'Amounts Reported for Resource Allocation Decisions'.

Gross revenue spending on services in the year was £359.0m. However, this included a credit against spend for an adjustment in pension past service costs of £53.1m.

Excluding this credit, the total spend was £412.1m. The following charts show the services on which the £412.1m was spent and where the money came from:



The following analysis is based on the budget monitoring system at directorate level which aligns budgets and spend with accountability. The table below shows original and revised budgets, actual outturn and variance with the revised budget:

| | 2010/11 | | | |
|---|---|---|---|---|
| | **Original Budget £'000** | **Revised Budget £'000** | **Outturn £'000** | **Variance £'000** |
| Adult Social Care | 47,499 | 46,789 | 46,827 | 38 |
| Business Services | 4,649 | 4,402 | 3,379 | (1,023) |
| Chief Executives | 3,536 | 2,147 | 2,013 | (134) |
| Children & Family Services - inc schools | 46,572 | 58,385 | 57,368 | (1,017) |
| Community Services | 34,044 | 35,013 | 35,428 | 415 |
| PPD | 3,056 | 3,010 | 2,578 | (432) |
| Public Health | 1,278 | 823 | 719 | (104) |
| Regeneration | 31,242 | 36,779 | 38,405 | 1,626 |
| **Net Expenditure Service Budgets** | **171,876** | **187,348** | **186,717** | **(631)** |
| Non Service Budgets | (1,440) | (39,383) | (40,231) | (848) |
| Technical Adjustments | - | - | - | - |
| **Net expenditure** | **170,436** | **147,965** | **146,486** | **(1,479)** |
| Contribution to/(from) Earmarked Reserves | (13,853) | 7,728 | 7,153 | (575) |
| Transfers to/(from) General Fund Balance | - | (1,791) | (446) | 1,345 |
| Transfers to/(from) School Balances | - | - | 709 | 709 |
| **Total General Fund** | **156,583** | **153,902** | **153,902** | **-** |

The Council showed an underspend of £1.345m (after transfers to reserves). As in previous years, the system of cash limit monitoring and accountability has in most cases reduced potential overspends identified throughout the year. The overall underspend represents less than 1% of the revised budget.

In-year budget cuts of £2.7m approved by Cabinet in July 2010 reduced the overall budget from £156.6m to £153.9m. Other changes between ‘original’ and ‘revised’ budget largely reflect technical adjustments in respect of capital accounting (e.g. depreciation and impairment of assets) but also budget transfers between directorates and movements to/from reserves.

The 2010/11 revenue budget included efficiency proposals totalling £4.0m. At the end of the financial year £3.5m (88%) of those efficiencies had been delivered. The largest area of non-achievement was in respect of income from the sale of permits under the landfill allowance trading scheme (LATS), which is understandable given the trading market is not generating a significant degree of activity. Focus is now on achieving the savings in future years.

Schools reported an overall underspend of £0.7m which is transferred to school balances.

The Council continues to have significant cash balances as a result of slower than planned spending on the capital programme and utilisation of reserves. This coupled with effective treasury management and internal capital financing has resulted with savings on debt financing costs of £0.7m. In accordance with agreed policy, the balance has been taken to reserves.

The Movement in Reserves Statement (MiRS) adjusts the technical accounting entries to reconcile the actual movement on the General Fund at the end of the year. For General Fund operations there was a decrease in the balance available of £0.446m, against an anticipated decrease of £1.791m. The General Fund balance has therefore decreased from £9.245m to £8.799m.

Also recorded within the MiRS is the element that relates specifically to balances held for schools. As mentioned, the outturn position in respect of schools was an underspend of £0.709m, resulting in a rise in school balances from £2.814m to £3.523m.

**Capital Spending in 2010/11**

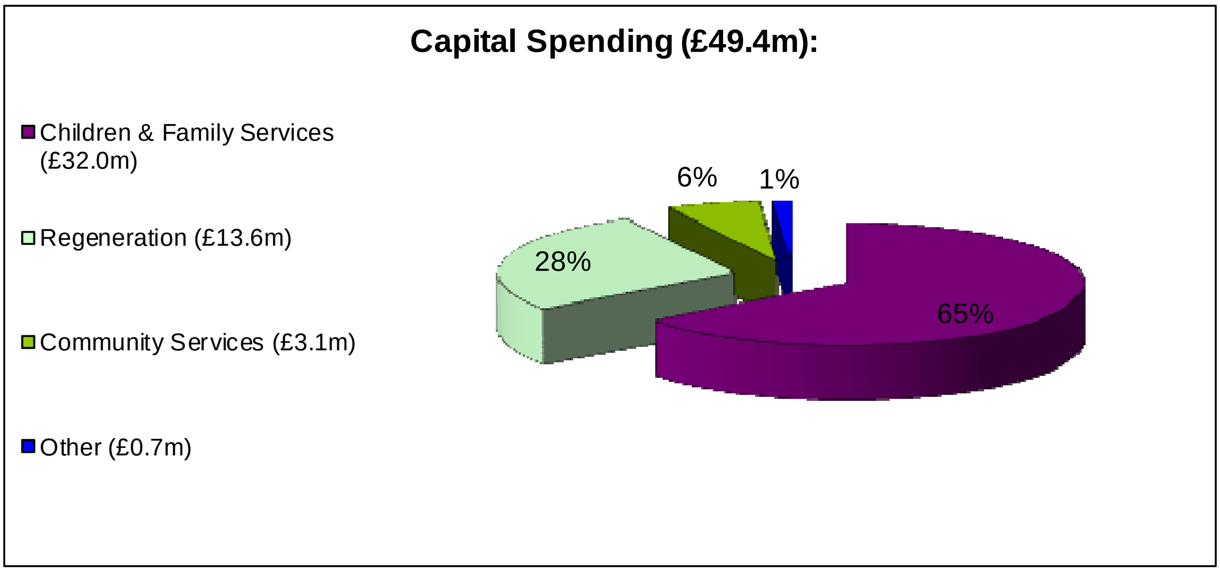
Capital spending is broadly defined as spending on assets (land, buildings, major pieces of equipment, vehicles) that have a life beyond twelve months. The original capital programme for 2010/11 was £77.2m. However, in September 2010 Cabinet reassessed their capital investment priorities and decommitted £10m of previously approved schemes pending consideration of a re-prioritised capital programme.

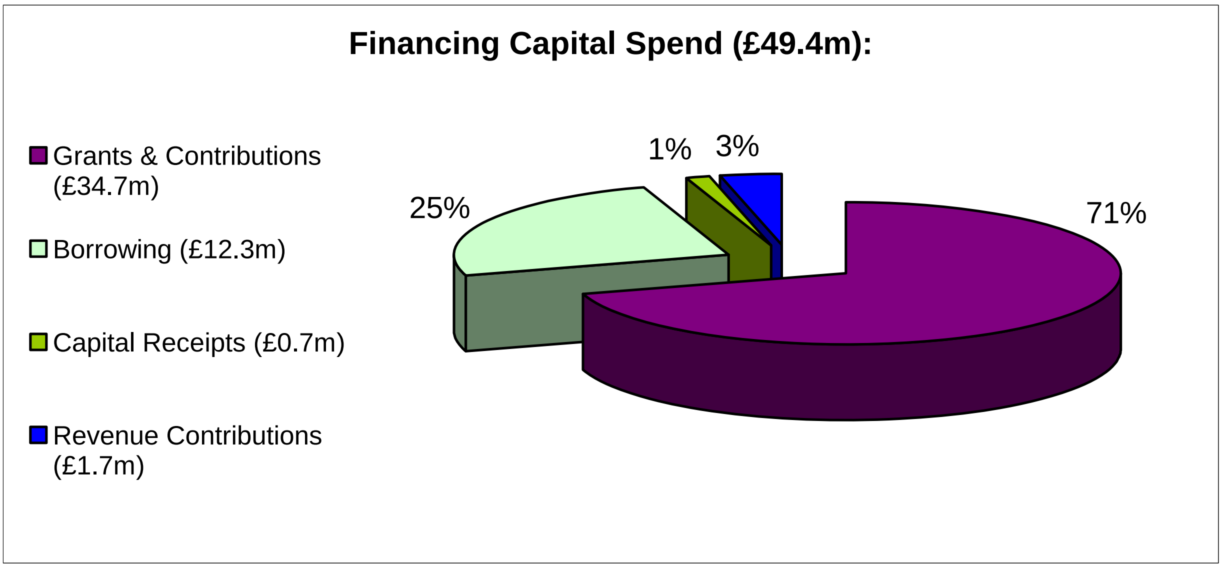
Whilst action was taken to try to ensure projects within the capital programme were delivered on time and to budget; it has been necessary to re-profile proposed capital spend into subsequent years.

After taking the decommitments into account, 74% of the remaining programme was delivered within the financial year. There are some mitigating circumstances this year – worst winter for many years, loss of external funding and in-year budget reductions; however this is an area where the Council is determined to make improvements.

The Capital Investment Strategy Group will be working with project managers to identify ways to improve programme delivery and deliver the outcomes to citizens. Major spend in the year included £13.3m on the new Havelock Academy School and £7.2m on the new Hereford School.

The following tables indicate where the money was spent and how it was financed:




## Review of the Council's Financial Position and Significant Points in Respect of the Balance Sheet

The Balance Sheet shows the balances held by the Council at the end of the year. It indicates how much is owed to the Council and how much the Council owes to others, together with summarised information on the assets held and the financing of those assets.

The significant points being:

**Pension Liability**

The pension deficit continues to fluctuate significantly between years. The deficit, as assessed by the pension actuary, showed an improvement of £108.2m during the year (compared with a deterioration of £133.6m in 2009/10).
A significant element of the improvement was as a result of a change announced by the Chancellor of the Exchequer in his budget statement on 2 June 2010. He announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Authority's liabilities in 2010/11 by £53.1m, which is recognised as a past service gain within the accounts, as well as impacting on future pension expense. The deficit has also reduced due to falling long term inflation expectations.

It is important to note that the overall liability figure represents an estimate of the value of scheme assets and liabilities at a point in time and therefore there is no direct link to funding or contribution rates. The technical accounting entries have no impact on the Council's ability to meet current and ongoing pension liabilities from existing revenue streams and budgets. The information should be considered with the long-term view provided by the triennial valuation.

The Pension Liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council.

#### Non Current Assets

The value of assets held by the Council is affected by the level of capital spend and purchases made as well as the sale of assets. In addition, regular valuations are undertaken to ensure the value of assets is up to date and takes into account any depreciation, impairment and upward revaluation and this incorporated a specific impairment review to assess the value of assets held.

Capital spending increased asset values by £42.1m. However, this was offset by depreciation (£21.6m), and an overall fall from revaluation and impairment of (£28.7m) and disposals (£41.5m) to give an overall fall in the value of assets of £49.7m. It should be noted that disposals of £38.2m were as a result of Humberston and Hereford Schools becoming foundation schools during the year, which requires that they are removed from the Council's asset portfolio as ownership transfers to the respective foundation trusts. Separate disclosure notes are provided that outline the impact on each classification of assets.

There are a number of schools that are expected to transfer to academy schools in 2011/12 and which are expected to also be treated as disposals from the Council's balance sheet with nil proceeds.

#### Borrowing and Investments

The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR). The CFR represents capital expenditure that has not yet been financed through direct contribution (e.g. grants, capital receipts) or through amounts set aside from revenue towards the repayment of debt (i.e. Minimum Revenue Provision or Voluntary Revenue Provision).

The Council sets its own prudential borrowing limits each year. For example, the Council ensures that the net external borrowing does not, except in the short-term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. The Council has, to date, been able to operate within its prudential borrowing limits and no problems are anticipated for future years.

The Council's general policy objective in respect of investments is to invest prudently. The Council's investment priorities are:

- security of the invested capital
- liquidity of the invested capital
- an optimum yield which is commensurate with security and yield

The Council continues to maintain significant cash balances as a result of lower than planned spending on the capital programme and the utilisation of reserves. This coupled with effective treasury management and the use of internal financing rather than external borrowing helped achieve debt financing cost savings of £0.7m in the year.

## Annual Governance Statement

The Annual Governance Statement reports on the outcome of the review of systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

## Future Plans

In July 2010 the Council entered a 10-year regeneration partnership with Balfour Beatty. The multi-million pound partnership means Balfour Beatty will be working alongside the Council in the planning and delivery of physical

regeneration, property and technical services in North East Lincolnshire.

Inevitably in a partnership of this scale a number of financial issues have arisen. These have been amicably resolved with regard to the 2010/11 financial year and, going forward, the Council is continuing to work with Balfour Beatty to ensure that the partnership continues to offer value for money for its residents.

The partnership is in line with the Council's vision to become a commissioning, enabling and facilitating organisation focused on creating the right conditions for individuals, communities and businesses to prosper.

The Council's vision is also to make North East Lincolnshire a place of opportunity where people want to live, work, invest and visit.

For 2011/2015 the Council has looked again at its priorities. It has spent time talking to businesses and community groups, to ensure that it can concentrate resources on what people in North East Lincolnshire say will make the greatest difference to their lives. As a result, the Council has chosen to focus on three main priorities with a fourth to support them. They are –

- Increase jobs and strengthen the local economy
- Enable children, young people and adults to learn and be ready for work
- Improve the health and well-being of all, especially vulnerable people

And to support these, the Council will work to –

Be an effective and efficient council.

The six values that will guide the Council's activities are:-

- Valuing people - we want our citizens to be better informed, involved and listened to. Within the Council we want our employees to feel confident, respected and have a high morale.
- Honesty - we want the Council to be seen as trustworthy with everyone feeling able to question, challenge and express opinions.
- Striving for continuous improvement - we want our citizens to receive better care and have an improved quality of life. Within the council we want our employees to focus on efficiency and improvements and have a can-do attitude.
- Commitment - we want greater community and citizen engagement to improve the area. Within the council we want everyone to be willing to go the "extra mile" and enjoy their work.
- Behaving with integrity - we want our citizens to understand what can and can not be done and be confident in what is happening. There will be respect across all parts of the Council and our values will be embedded.
- Openness - we want the Council to be seen as transparent and an organisation that is responsive.

The 2010 Comprehensive Spending Review and the Government's deficit reduction programme will shape the public sector financial landscape for both the Council and its partners over the next four years. In response, the budget and medium term financial plan, approved by Council in February 2011, set out our plans to reduce overall spending by £30m per year by 2014/15.

Despite the financial challenges, we continue to maintain a sound financial position. Our planned spending is sustainable, with affordable increases in council tax over the period (no increase in 2011/12). This is supported by sustainable and affordable borrowing for investment. Balances held in reserve are adequate and can meet urgent needs if required.

We remain committed to supporting capital investment to deliver the Council's priorities. Over the period 2011 to 2016 the Council is planning to invest £82.5m from its own resources. However, the ability to resource and deliver all of the priorities and aspirations will be subject to attracting and securing external funding. This will be a significant challenge in terms of both the general economic climate and the Government's reduction in funding of capital spending of 45 percent.

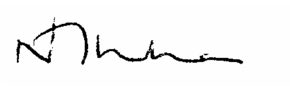
In addition, to the financial challenges the Council will be managing a number of operational challenges. This includes the transfer of a number of schools to academies, which will have to be managed within finite resources.

The Council remains committed to meeting these challenges and its Future Shape Programme will help it become a smaller and smarter organisation.

A number of projects make up the Future Shape programme, including community leadership; commissioning and delivery; operational and business support services; strategic support services; managing the Council's people; improving the customer experience and managing the change. These projects will help us to:

- Improve experiences and outcomes for people and businesses;
- Work with, support and encourage local people so they can make choices, decisions and undertake things for themselves. This will build capacity in the community whilst protecting the most vulnerable;
- Be responsive to change and ready for future challenges; and
- Be a smaller and smarter organisation that provides better value for the community.

As part of this we have already decided to re-structure our executive team, reduce the number of directorates, introduce a new suggestion scheme and introduce a new human resources, payroll and finance system.



**Neil Thornton,**
**Chief Finance Officer**
**29 June 2011**

Copies of this and previous years' accounts are available for viewing on the Council's website at www.nelincs.gov.uk or from the Chief Finance Officer, North East Lincolnshire Council, Civic Offices, Knoll Street, Cleethorpes DN35 8LN

Other Languages and Formats
If you would like to receive this information in another language or in another format, please contact our Customer Services Section by email or telephone 01472 325961

# STATEMENT OF RESPONSIBILITIES

**The Council's Responsibilities**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Chief Finance Officer.

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- approve the Statement of Accounts by the 30 September 2011.

**The Chief Finance Officer's Responsibilities**

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently.

- made judgements and estimates that were reasonable and prudent.

- complied with the local authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date.

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

**Chief Finance Officer Certification**

I hereby certify that the following Statement of Accounts presents a true and fair view of the financial position of North East Lincolnshire Council as at 31 March 2011 and its income and expenditure for the financial year then ended.

**Neil Thornton**
**Chief Finance Officer**
**29 June 2011**

# AUDIT REPORT

To be included after audit inspection

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations, which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2009/10 (as restated) Gross Spend £'000 | Gross Income £'000 | Net Spend £'000 | | Note | 2010/11 Gross Spend £'000 | Gross Income £'000 | Net Spend £'000 |
|---|---|---|---|---|---|---|---|
| | | | **Cost of Services** | | | | |
| 23,079 | (19,817) | 3,262 | Central Services to the Public | | 19,336 | (17,529) | 1,807 |
| 56,958 | (13,680) | 43,278 | Cultural, Environmental, Regulatory and Planning Services | | 65,694 | (17,788) | 47,906 |
| 185,321 | (137,692) | 47,629 | Education and Children's Services | | 184,837 | (128,075) | 56,762 |
| 14,865 | (2,951) | 11,914 | Highways and Transport Services | | 14,412 | (2,799) | 11,613 |
| 63,938 | (60,918) | 3,020 | Housing Services | | 68,631 | (57,754) | 10,877 |
| 53,238 | (5,854) | 47,384 | Adult Social Care | | 53,016 | (1,974) | 51,042 |
| 5,212 | (1,043) | 4,169 | Corporate and Democratic Core | | 4,699 | (1,359) | 3,340 |
| | | | Non Distributed Costs | | | | |
| - | - | - | - past service costs revaluation | 5 | (53,097) | - | (53,097) |
| 1,960 | (2,349) | (389) | - other | | 1,324 | (8,400) | (7,076) |
| **404,571** | **(244,304)** | **160,267** | **Sub-total: Net Cost of Services** | | **358,852** | **(235,678)** | **123,174** |
| | | | **Other Operating Expenditure** | | | | |
| | | (814) | (Gain)/loss on disposal of non current assets | | | | 39,987 |
| | | 1,114 | Precepts of local precepting authorities | | | | 1,098 |
| | | 2 | Amounts payable into the Housing Capital Receipts Pool | | | | 2 |
| | | | **Financing and Investment Income and Expenditure** | | | | |
| | | 4,040 | Interest payable and similar charges | | | | 4,038 |
| | | (958) | Interest and investment income | | | | (990) |
| | | (407) | Impairment of Icelandic banks investments | 3 | | | (372) |
| | | (744) | (Surplus)/deficit on trading undertakings | 4 | | | (1,083) |
| | | (2,642) | Income and expenditure for investment properties and changes in their fair value | | | | (2,081) |
| | | 10,046 | Pensions interest cost and expected return on pensions assets | 5 | | | 7,562 |
| | | **169,904** | **Sub-total: Net Operating Expenditure** | | | | **171,335** |
| | | | **Income from Taxation and Non Specific Grant** | | | | |
| | | (60,079) | Council tax income | | | | (60,030) |
| | | (35,462) | General revenue grants and contributions | 6 | | | (31,103) |
| | | (27,316) | Capital grants and contributions | | | | (29,967) |
| | | (56,964) | Non domestic rates | | | | (63,545) |
| | | **(9,917)** | **Total: (Surplus)/Deficit on Provision of Services** | | | | **(13,310)** |
| | | | **Other Comprehensive Income and Expenditure** | | | | |
| | | (3,884) | Surplus or deficit on revaluation of non-current assets | | | | 5,328 |
| | | 132,259 | Actuarial gains or losses on pension assets and liabilities | | | | (56,214) |
| | | **118,458** | **Total: Comprehensive Income and Expenditure** | | | | **(64,196)** |

# MOVEMENT IN RESERVES STATEMENT

| | General Fund Balance | Earmarked Reserves | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2009** | **(10,141)** | **(45,561)** | **0** | **(512)** | **(56,214)** | **(176,048)** | **(232,262)** |
| **Movement in reserves during 2009/10** | | | | | | | |
| (Surplus) or deficit in the provision of services | (9,917) | 0 | 0 | 0 | (9,917) | 0 | **(9,917)** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 128,375 | **128,375** |
| **Total Comprehensive Income and Expenditure** | **(9,917)** | **0** | **0** | **0** | **(9,917)** | **128,375** | **118,458** |
| Adjustments between accounting basis and funding basis under regulations (note 13) | 6,550 | 0 | 0 | (3,731) | 2,819 | (2,819) | **0** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(3,367)** | **0** | **0** | **(3,731)** | **(7,098)** | **125,556** | **118,458** |
| **Transfers to and from Earmarked Reserves (note 35)** | **1,449** | **(1,449)** | **0** | **0** | **0** | **0** | **0** |
| **Increase/Decrease in 2009/10** | **(1,918)** | **(1,449)** | **0** | **(3,731)** | **(7,098)** | **125,556** | **118,458** |
| **Balance at 31 March 2010 Carried Forward** | **(12,059)** | **(47,010)** | **0** | **(4,243)** | **(63,312)** | **(50,492)** | **(113,804)** |
| **Movement in reserves during 2010/11** | | | | | | | |
| (Surplus) or deficit in the provision of services | (13,310) | 0 | 0 | 0 | (13,310) | 0 | **(13,310)** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | (50,886) | **(50,886)** |
| **Total Comprehensive Income and Expenditure** | **(13,310)** | **0** | **0** | **0** | **(13,310)** | **(50,886)** | **(64,196)** |
| Adjustments between accounting basis and funding basis under regulations (note 13) | 5,892 | 0 | (780) | (301) | **4,811** | (4,811) | **0** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(7,418)** | **0** | **(780)** | **(301)** | **(8,499)** | **(55,697)** | **(64,196)** |
| **Transfers to and from Earmarked Reserves (note 35)** | **7,155** | **(7,155)** | **0** | **0** | **0** | **0** | **0** |
| **Increase/Decrease in 2010/11** | **(263)** | **(7,155)** | **(780)** | **(301)** | **(8,499)** | **(55,697)** | **(64,196)** |
| **Balance at 31 March 2011 Carried Forward** | **(12,322)** | **(54,165)** | **(780)** | **(4,544)** | **(71,811)** | **(106,189)** | **(178,000)** |

# BALANCE SHEET

| 1 April 2009 as restated £'000 | 31 March 2010 as restated £'000 | | Notes | 31 March 2011 £'000 | £'000 |
|---|---|---|---|---|---|
| | | **Long-term Assets** | | | |
| 1,209 | 845 | Intangible Assets | 16 | 457 | |
| 43,329 | 43,290 | Investment Properties | 17 | 41,927 | |
| | | Property, Plant and Equipment | | | |
| 304,162 | 298,170 | Other Land and Buildings | 18 | 242,159 | |
| 5,650 | 5,126 | Vehicles, Plant and Equipment | 18 | 4,210 | |
| 57,528 | 62,014 | Infrastructure Assets | 18 | 65,707 | |
| 14,410 | 14,585 | Community Assets | 18 | 15,104 | |
| 1,455 | 19,324 | Assets Under Construction | 18 | 24,180 | |
| 5,298 | 36 | Long-term Investments | | 36 | |
| 654 | 1,562 | Long-term Debtors | 25 | 1,233 | |
| **433,695** | **444,952** | **Sub total: Long-term Assets** | | | **395,013** |
| | | **Current Assets** | | | |
| 167 | 314 | Inventories | 26 | 204 | |
| 19,679 | 29,653 | Short-term Debtors | 27 | 26,753 | |
| 4,118 | 8,553 | Short-term Investments | | 12,217 | |
| 57,824 | 43,564 | Cash and Cash Equivalents | 30 | 43,558 | |
| **81,788** | **82,084** | **Sub total: Current Assets** | | | **82,732** |
| | | **Current Liabilities** | | | |
| (1,592) | (1,334) | Short-term Borrowing | 28 | (299) | |
| (30,900) | (31,218) | Short-term Creditors | 31 | (31,533) | |
| (11,519) | (9,793) | Capital Grants Receipts in Advance | | (3,911) | |
| (422) | (1,077) | Short-term Provisions | 32 | (1,745) | |
| (1,922) | (2,454) | Cash and Cash Equivalents - Bank Overdraft | 30 | (4,734) | |
| **(46,355)** | **(45,876)** | **Sub total: Current Liabilities** | | | **(42,222)** |
| | | **Long-term Liabilities** | | | |
| (90,476) | (89,324) | Long-term Borrowing | | (89,096) | |
| (2,415) | (155) | Capital Grants Receipts in Advance | | 0 | |
| (5,872) | (6,217) | Long-term Provisions | 32 | (5,010) | |
| | | Other Long-term Liabilities | | | |
| (138,103) | (271,660) | Pensions Liability | 5 | (163,417) | |
| **(236,866)** | **(367,356)** | **Sub total: Long-term Liabilities** | | | **(257,523)** |
| **232,262** | **113,804** | **TOTAL NET ASSETS** | | | **178,000** |
| | | Usable Reserves | | | |
| (45,561) | (47,010) | Earmarked Reserves | 35 | (54,165) | |
| (10,141) | (12,059) | General Fund Balance | 36 | (12,322) | |
| 0 | 0 | Capital Receipts Reserve | 41 | (780) | |
| (512) | (4,243) | Capital Grants Unapplied | | (4,544) | |
| | | Unusable Reserves | | | |
| (104,209) | (105,711) | Revaluation Reserve | 42 | (84,556) | |
| (218,020) | (223,147) | Capital Adjustment Account | 43 | (187,755) | |
| 2,882 | 2,097 | Financial Instruments Adjustment Account | 3 | 0 | |
| 138,103 | 271,660 | Pensions Reserve | 5 & 33 | 163,417 | |
| 5,344 | 5,550 | Accumulated Absences Account | | 3,902 | |
| (23) | (18) | Deferred Capital Receipts Reserve | 44 | (15) | |
| (125) | (923) | Collection Fund Adjustment Account | 45 | (1,182) | |
| **(232,262)** | **(113,804)** | **TOTAL RESERVES** | | | **(178,000)** |

**I certify that these accounts present a true and fair view of the financial position of North East Lincolnshire Council as at 31 March 2011**

**Neil Thornton,**
**Chief Finance Officer**
**29 June 2011**

# CASH FLOW STATEMENT

| 2009/10 Restated £'000 | | Note | 2010/11 £'000 | £'000 |
|---|---|---|---|---|
| 9,917 | Net Surplus or (Deficit) on the Provision of Services | | | 13,310 |
| 29,934 | Adjustments to Net Surplus or Deficit on the Provision of Services for non cash movements | 52 | | 39,410 |
| (30,031) | Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are investing and financing activities | 53 | | (42,465) |
| **9,820** | **Net Cash Flow from Operating Activities** | | | **10,255** |
| | **Investing Activities** | | | |
| (37,647) | Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets | | (43,486) | |
| 0 | Purchase of Short and Long-term Investments | | (9,000) | |
| (987) | Other Payments for Investing Activities | | (341) | |
| 2,720 | Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets | | 1,274 | |
| 29,361 | Capital Grants Received | | 27,934 | |
| 1,980 | Proceeds from Short and Long-term Investments | | 6,035 | |
| (7,981) | Other Receipts from Investing Activities | | 0 | |
| **(12,554)** | **Net Cash Flow from Investing Activities** | | | **(17,584)** |
| | **Financing Activities** | | | |
| (19,773) | Repayment of Amounts Borrowed | | (1,249) | |
| 18,063 | New Short-term Loans Raised | | 0 | |
| (10,348) | Other Payments for Financing Activities | | 6,292 | |
| **(12,058)** | **Net Cash Flow from Financing Activities** | | | **5,043** |
| **(14,792)** | **Net Increase/(Decrease) in Cash and Cash Equivalents** | | | **(2,286)** |
| **55,902** | **Cash and Cash Equivalents at 1 April** | | | **41,110** |
| **41,110** | **Cash and Cash Equivalents at 31 March** | | | **38,824** |

The format of the Cash Flow Statement and respective disclosure notes have been completely revised following the introduction of the Code of Practice on Local Authority Accounting and the figures have been restated accordingly. The most noticeable change is that the Cash Flow Statement now shows the movement in cash and cash equivalents rather than just cash, as was required in the previous accounting period.

# NOTES TO THE ACCOUNTS

## 1. Accounting Policies

**i. General Principles** - the Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), which is based on International Financial Reporting Standards (IFRS), and the Best Value Accounting Code of Practice 2010/11. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non current assets.

This is the first time that the accounts have been prepared on the basis of IFRS and this is a major change from previous years, when the accounts were prepared in accordance with the UK Generally Accepted Accounting Principles based Statement of Recommended Practice (the SORP) and the impact of this change is summarised in the following accounting policies.

The Accounting Policies outlined are the specific principles, bases, conventions, rules and practices applied in preparing and presenting these financial statements.

**ii. Critical Judgements in Applying Accounting Policies** - In applying these accounting policies the Council has had to make judgements about complex transactions or those involving uncertainty about future events. There are no specific judgements that require disclosure at this point in time although the Council continues to review its plans to manage the high degree of uncertainty about future levels of funding for local government.

**iii. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty** - The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, some may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

Of the items in the Council's Balance Sheet at 31 March 2011 there is a significant likelihood of material adjustment in the forthcoming financial year for pension liabilities. The funding of future public sector employee pension schemes has been subject to a review by Lord John Hutton, whose report has made a number of recommendations that are aimed at limiting the liability of these pension schemes on the taxpayer in the future. It is not possible, at this stage, to make an assessment of the impact upon the Council's liabilities and these will be assessed by the Council's appointed pension actuary as and when changes are made.

**iv. Changes in Accounting Policies, Estimates and Errors** - The Code requires that a change in accounting policy should only be made if the change –

- Is required by the Code, or
- Will result in the financial statements providing more reliable and relevant financial information about the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

There are a number of changes in accounting policy as a result of the move from the SORP to the IFRS based Code. The accounting policy changes are in respect of –

- Held for sale assets and discontinued operations
- Accounting for grants and contributions and donated assets
- Accounting for impairment losses
- Definition of cash and cash equivalents
- Component accounting for Property, Plant and Equipment (prospective application only)
- Short-term employee benefits

Changes in accounting estimate are accounted for prospectively.

Material errors discovered in prior period figures are corrected retrospectively. A retrospective amendment has been made to the Collection Fund in respect of the amounts of National Non Domestic Rates collectable from business ratepayers and due for payment to the National Pool, with a relatively minor adjustment to Bad and Doubtful Debts totals for business rates.

This was as a result of the figure being shown gross, when the amounts should be reported net of the provision for non-collection and reliefs (transitional and charitable) taken into account in calculating the

amount payable to the national pool for the year.

The only impact is in respect of the Collection Fund, as follows –

| **Collection Fund** | **2009/10 Statements £'000** | **Adjustments Made £'000** |
|---|---|---|
| Income Collectable from Business Ratepayers | (65,319) | 9,466 |
| Payment to National Pool | 64,580 | (9,431) |
| Write Offs (includes Council Tax) | (47) | (35) |

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements as a result of changes in the restatement for IFRS. Where appropriate, more detail is provided within the main statements and disclosure notes.

**Summary of Restatement for IFRS**

(a) *Cash and Cash Equivalents*

The Code requires the recognition of cash and cash equivalents as opposed to just cash in the financial statements. The respective definitions are outlined at note xxiv below and the impact on the change from cash to cash equivalents is shown below –

| **Opening 1 April 2009 Balance Sheet** | **2009/10 Statements £'000** | **Adjustments Made £'000** |
|---|---|---|
| Current Assets - Investments | 59,123 | (55,005) |
| Cash and Cash Equivalents (formerly Cash and Bank) | 2,819 | 55,005 |

| **Closing 31 March 2010 Balance Sheet** | **2009/10 Statements £'000** | **Adjustments Made £'000** |
|---|---|---|
| Current Assets - Investments | 49,939 | (41,386) |
| Cash and Cash Equivalents (formerly Cash and Bank) | 2,178 | 41,386 |

(b) *Short-term Accumulating Compensated Absences*

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave and flexi leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to a new Accumulated Absences Account until the benefits are used. Accruing for short-term accumulating compensated absences has resulted in the following changes made to the 2009/10 financial statements. The accounting policy in respect of employee benefits is detailed at note ix below.

| **Opening 1 April 2009 Balance Sheet** | **2009/10 Statements £'000** | **Adjustments Made £'000** |
|---|---|---|
| Short-term compensated absences debtors accruals | 0 | 422 |
| Short-term compensated absences creditors accruals | 0 | (5,766) |
| Accumulated Absences Accounts | 0 | 5,344 |

| **Closing 31 March 2010 Balance Sheet** | **2009/10 Statements £'000** | **Adjustments Made £'000** |
|---|---|---|
| Short-term compensated absences debtors accruals | 0 | 612 |
| Short-term compensated absences creditors accruals | 0 | (6,162) |
| Accumulated Absences Accounts | 0 | 5,550 |

| **2009/10 Comprehensive Income and Expenditure Statement** | **2009/10 Statements £'000** | **Adjustments Made £'000** |
|---|---|---|
| **Cost of Services (Net)** | | |
| Central Services to the Public | 3,020 | (3) |
| Court Services | 245 | (1) |
| Cultural, Environmental, Regulatory and Planning Services | 36,574 | (38) |
| Education and Childrens Services | 41,078 | 298 |
| Highways and Transport Services | 11,594 | (4) |
| Housing Services | 3,061 | (2) |
| Adult Social Care | 46,825 | (9) |
| Corporate and Democratic Core | 4,158 | (33) |
| **Other Operating Expenditure** | | |
| (Surplus)/Deficit on Trading Undertakings | (835) | (2) |
| **Total Adjustment** | | **206** |

Although the Accumulated Absences Account only came into effect from 1 April 2010, for the purposes of restatement of comparatives it is assumed that this has always been in place. The adjustments to the Comprehensive Income and Expenditure Statement therefore relate to the movement between the 1 April 2009 opening balance and 31 March 2010 closing balance on the account.

*(c) Government Grants*

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

Also, specific revenue grants and contributions were previously held as receipts in advance until they were spent. They are now required to be recognised immediately unless a condition for repayment remains outstanding at the balance sheet date. Those revenue grants that are now required to be recognised immediately are assumed to be set aside in an earmarked reserve so that they can be matched in future periods with the service spend for which the grant is planned to finance. The accounting policy in respect of grants is detailed at note viii and the impact of the changes are detailed below -

**Opening 1 April 2009 Balance Sheet**

| | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Current Liabilities** | | |
| Capital Grants Receipts in Advance | 0 | (11,519) |
| Creditors - Capital Grants Unapplied | (16,835) | 16,835 |
| Creditors - Section 106 Contributions | (477) | 427 |
| Creditors - Revenue Grants Receipts in Advance | (3,961) | 1,172 |
| **Long-term Liabilities** | | |
| Capital Grants Receipts in Advance | 0 | (2,415) |
| Contributions and Government Grants Deferred | (33,038) | 33,038 |
| **Equity** | | |
| Earmarked Reserves | (41,573) | (3,988) |
| Capital Grants Unapplied Account Reserve | 0 | (512) |
| Capital Adjustment Account | (181,750) | (33,038) |

**Closing 31 March 2010 Balance Sheet**

| | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Current Liabilities** | | |
| Capital Grants Receipts in Advance | 0 | (9,793) |
| Creditors - Capital Grants Unapplied | (14,607) | 14,607 |
| Creditors - Section 106 Contributions | (630) | 618 |
| Creditors - Revenue Grants Receipts in Advance | (5,006) | 1,325 |
| **Long-term Liabilities** | | |
| Capital Grants Receipts in Advance | 0 | (155) |
| Contributions and Government Grants Deferred | (49,295) | 49,295 |
| **Equity** | | |
| Earmarked Reserves | (44,651) | (2,359) |
| Capital Grants Unapplied Account Reserve | 0 | (4,243) |
| Capital Adjustment Account | (171,074) | (49,295) |

**2009/10 Comprehensive Income and Expenditure Statement**

| | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Cost of Services (Net)** | | |
| Cultural, Environmental, Regulatory and Planning Services | 36,574 | 1,556 |
| Education and Childrens Services | 41,078 | 6,516 |
| Highways and Transport Services | 11,594 | 323 |
| Housing Services | 3,061 | (50) |
| Adult Social Care | 46,825 | 568 |
| Corporate and Democratic Core | 4,158 | 44 |
| **Income from Taxation and Non Specific Grant** | | |
| Capital Grants and Contributions | 0 | (27,316) |
| **Total Adjustment** | | **(18,359)** |

*(d) Asset Classifications, Revaluations and Impairment*

Under the Code, the criteria for classification of certain types of assets have changed, with the definitions for investment property and assets held for sale in particular much more specific. This has meant that a significant number of assets have been re-categorised as Property, Plant and Equipment.

In a number of instances the valuation method and depreciation charged for assets has changed accordingly and this has resulted in some significant changes in asset valuations and depreciation charges in the Comprehensive Income and Expenditure Statement.

Also under the Code, balances for upward revaluation of investment property are not held in the Revaluation Reserve and gains or losses as a result of the change in the fair value of investment property are reported through the Comprehensive Income and Expenditure Statement and transferred to the Capital Adjustment Account via the Movement in Reserves Statement. Income and expenditure directly attributable to investment property is also now included within Other Operating Expenditure rather than to cost of services.

Further, the treatment of impairment has now changed, which has also impacted on the amount charged through the Comprehensive Income and Expenditure Statement.

The accounting policies in respect of these items are detailed at notes xiv, xv and xvi and the impact of the changes are detailed below –

**Opening 1 April 2009 Balance Sheet**

| | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Long-term Assets** | | |
| Investment Properties | 55,434 | (12,105) |
| Property, Plant and Equipment - Other Land and Buildings | 239,498 | 64,664 |
| Assets Held for Sale (formerly Surplus Assets Held for Disposal) | 1,445 | (1,445) |
| **Equity** | | |
| Revaluation Reserve | (56,327) | (47,882) |
| Capital Adjustment Account | (181,750) | (3,232) |

**Closing 31 March 2010 Balance Sheet**

| | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Long-term Assets** | | |
| Investment Properties | 55,028 | (11,738) |
| Property, Plant and Equipment - Other Land and Buildings | 237,473 | 60,697 |
| Assets Held for Sale (formerly Surplus Assets Held for Disposal) | 1,938 | (1,938) |
| **Equity** | | |
| Revaluation Reserve | (61,468) | (44,243) |
| Capital Adjustment Account | (171,074) | (2,778) |

| 2009/10 Comprehensive Income and Expenditure Statement | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Cost of Services (Net)** | | |
| Central Services to the Public | 3,020 | 1 |
| Cultural, Environmental, Regulatory and Planning Services | 36,574 | 5,186 |
| Education and Childrens Services | 41,078 | (263) |
| Highways and Transport Services | 11,594 | 1 |
| Housing Services | 3,061 | 11 |
| **Other Operating Expenditure** | | |
| (Surplus)/Deficit on Trading Undertakings | (835) | 93 |
| Income and expenditure for investment properties and changes in their fair value | 0 | (2,642) |
| **Other Comprehensive Income and Expenditure** | | |
| Surplus or deficit on revaluation of non-current assets | 0 | 1,706 |
| **Total Adjustment** | | **4,093** |

*(e) Provisions*

Provisions are now required to be analysed between short-term and long-term liabilities. The impact is shown below –

| Opening 1 April 2009 Balance Sheet | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Current Liabilities** | | |
| Provisions | 0 | (422) |
| **Long-term Liabilities** | | |
| Provisions | (6,294) | 422 |

| Closing 31 March 2010 Balance Sheet | 2009/10 Statements £'000 | Adjustments Made £'000 |
|---|---|---|
| **Current Liabilities** | | |
| Provisions | 0 | (1,077) |
| **Long-term Liabilities** | | |
| Provisions | (7,294) | 1,077 |

**v. Accruals of Income and Expenditure** - the accounts of the Council are prepared on an accruals basis. This means that the sums due to or from the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year in question. Accruals have been made for all known material debtors and creditors for goods and services supplied both by and to the Council during the year.

Interest payable and receivable is accounted for in the year to which it relates.

**vi. Provisions -** Provisions are required for any liabilities of uncertain timing or amount that arise from past events. Provisions are made where the Council has a financial obligation (either legal or constructive) for which settlement is at least probable and where a reliable estimate can be made of the financial impact of settling that obligation.

Provisions are charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year.

An allowance is also set aside for Bad and Doubtful Debts - the carrying amount of debtors is adjusted for debts assessed as uncollectible and an impairment charge is made to the relevant service revenue account. The carrying amount of debtors is also adjusted for council tax debts that are assessed as uncollectable, and a charge is made to the Collection Fund.

**vii. Reserves –** Reserves are an accumulation of previous years' surpluses, deficits and transfers. The Council has an agreed policy with respect to reserves and sets aside specific amounts for future policy purposes or to cover contingencies.

Transfers in and out of reserves are shown in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in that year to score against the Surplus or Deficit in the Provision of Services in the Comprehensive Income and Expenditure Statement. A transfer is then made, through the Movement in Reserves Statement, into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are classed as unusable reserves as they are kept to manage the accounting processes for non current assets, financial instruments and retirement benefits and cannot be used to support revenue spending, although an element of the Capital Adjustment Account can be used to repay external loan debt.

Usable reserves are those the Council may use to fund either revenue or capital expenditure as prescribed. The usable reserves held at 31 March 2011 include –

- General Fund
- Earmarked Revenue Reserves
- Capital Receipts Reserve
- Capital Grants Unapplied

Unusable reserves held at 31 March 2011 include –

- Capital Adjustment Account
- Revaluation Reserve
- Pensions Reserve
- Accumulated Absences Account
- Collection Fund Adjustment Account

**viii. Government Grants and Contributions** – under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

When the conditions are met, grants relating to the funding of capital expenditure are credited to Taxation and Non-specific Grant Income in the Comprehensive Income and Expenditure Statement. This is then transferred, via the Movement in Reserves Statement, to either the Capital Adjustment Account (CAA) if the grant has been used to finance capital expenditure in the year, or to the Capital Grants Unapplied Account (CGUA) until it is applied. When grant balances held in the CGUA are applied in the year they are transferred directly to the CAA.

Also, specific revenue grants and contributions were previously held as receipts in advance until they were spent. They are now required to be recognised immediately unless a condition for repayment remains outstanding at the balance sheet date. Revenue grants, including grants for Revenue Expenditure Funded from Capital Under Statute (REFCUS), are accrued and credited to income within service revenue accounts when the conditions regarding their use are met.

Any income credited to service revenue that does not match the expenditure they are intended to fund is, subject to approval, transferred to or from earmarked reserves, via the Movement in Reserves Statement. This helps ensure that the grant is properly set aside to finance the services for which it has been provided and budgeted for and prevents unnecessary fluctuations in General Fund balances.

All grants and contributions with conditions attached are held as receipts in advance until such time as the conditions regarding their use are met. .

Grants to cover general expenditure, such as Revenue Support Grant and Area Based Grant are credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement.

**ix. Employee Benefits** – Employee benefits are accounted for in accordance with the Code's interpretation of IAS 19 – Employee Benefits. This standard covers both benefits payable during and after employment.

*Benefits Payable During Employment*

Liabilities for employees' entitlements to 'shorter term employee benefits' are recognised as an expense in the year in which employees render service to the Council. Short-term employee benefits are employee benefits that are due to be settled within 12 months after the year end in which the employee renders the service. These include

- Wages and salaries, including bonuses
- Short-term compensated absences
- Non-monetary benefits

Compensated absences can be either accumulating or non-accumulating. Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. This includes carried forward annual leave and flexi time.

These absences are recognised as an expense in the year that the employee accrues the entitlement and are measured as the additional amount that the Council expects to pay as a result of unused entitlement that has accumulated at 31 March 2011. This expense is reversed via a credit transfer from the Accumulated Absences Account to the Movement in Reserves Statement so that it does not result in a charge to council taxpayers in that year and so that these benefits are charged to the General Fund in the year that the absence occurs.

Non accumulating absences are those that cannot be carried forward for use in future periods, such as sick leave and maternity leave. These are recognised when the absence occurs.

The Council does not award long-term employee benefits i.e. those that are not expected to be paid within 12 months of the balance sheet date.

*Post Employment Benefits*

Employees of the Council are generally eligible to be members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered in this area by East Riding of Yorkshire Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), linked to length of service as employees of the Council, including transferred in service for past employers.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children's and Education Service, within the Comprehensive Income and Expenditure Statement, is charged with the employer's contributions payable to Teachers' Pensions in the year.

*The Local Government Pension Scheme*

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

The liabilities of the East Riding Pension Fund Scheme (the Fund) attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on certain assumptions, such as mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality (at least AA rated) corporate bonds.

The assets of the Fund attributable to the Council are included in the Balance Sheet at their fair value except for unquoted Private Equity Fund and Private Finance Initiative investments, which are shown at the lower of cost or fair value, which the Pensions Committee considers to be a more prudent measure of valuation.

The change in the net pensions liability is analysed into seven components:

(a) current service cost – the increase in liabilities as a result of years of service earned this year (allocated to the revenue accounts of services for which the employees worked in the Comprehensive Income and Expenditure Statement).

(b) past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years (debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs).

(c) interest cost - the expected increase in the present value of liabilities during the year as the benefits are one year closer to being paid (debited to Financing Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement).

(d) expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return (credited to Financing Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement).

(e) gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees (debited or credited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs).

(f) actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions (debited or credited to the Comprehensive Income and Expenditure Statement as part of Other Expenditure).

(g) contributions paid to the Fund - cash paid as employer's contributions to the Pension Fund.

Statutory provisions require the Council to raise council tax to at least cover the amounts payable by the Council to the Pension Fund in the year. In the Movement in Reserves Statement there are transfers to and from the Pensions Reserve to remove the debits and credits for retirement benefits and replace them with the actual cash paid or payable to the Pension Fund.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award. Both teachers and other staff benefits are accounted for using the policies as applied to the Local Government Pension Scheme.

**x. Value Added Tax (VAT)** - income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

**xi. Overheads and Support Services -** the cost of support services are recharged to services based on use and in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP) 2010/11 using the principle of total absorption costing. The full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of those costs that relate to the elected and multi-functional nature of the Council, which are disclosed separately as Corporate and Democratic Core and Non Distributed Costs.

These two categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

**xii. Exceptional Items** – When items of income and expenditure are material their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts and dependent upon their significance to the Council's financial performance.

**xiii. Intangible Assets** - intangible assets acquired by the Council, e.g. computer software licences, are capitalised at cost and amortised over their useful life (typically 5 years). Assets are only revalued where the fair value of the assets can be determined by reference to an active market. In practice, no intangible assets held by the Council meets this criterion and they are therefore carried at amortised cost.

Services are charged with a provision for amortisation of intangible assets used in providing services and, where required, any related impairment loss. These charges are credited to the Movement in Reserves Statement, and therefore have a neutral impact on the amount that is required from local taxation.

Any gain or loss arising on the disposal of an intangible asset is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement, which is then reversed out, via the Movement in Reserves Statement. The Capital Receipts Reserve is credited with an amount equal to the sales proceeds

and the Capital Adjustment Account is debited with an amount equal to the carrying amount of the intangible asset.
A deminimis level for recognition has been set at £50,000.

**xiv. Property, Plant and Equipment** – are tangible fixed assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis and are not classed as an investment property, see separate note.

*Recognition*

Expenditure on the acquisition, construction or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year and that the cost can be measured reliably. Expenditure on the acquisition, construction or enhancement of assets with a total value of below £10,000 is not capitalised. The Council maintains a detailed asset register of all assets that it owns.

Expenditure which maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

*Measurement after Recognition*

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use.

Infrastructure, community assets and assets under construction are thereafter measured at historical cost. All other classes of assets are measured at fair value. If there is no market based evidence of fair value, because of the specialised nature of the asset and the asset is rarely sold, an estimate of fair value is made on a depreciated replacement cost basis.

In accordance with the CIPFA approved methodology, infrastructure assets inherited from Humberside County Council were initially valued at the value of outstanding debt as a proxy to establish historic cost.

Assets included in the Balance Sheet at current value are revalued as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve, except where they arise from the reversal of an impairment or revaluation loss previously charged to Surplus or Deficit on the Provision of Services on the same asset.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets, and the depreciation that would have been chargeable based on their historical cost.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Material assets are recognised into components for depreciation purposes when the component is of significant cost compared to the total cost of the item and has a materially different useful life to the main asset. Enhancement expenditure requires the derecognition of the component replaced or refurbished, and the new component reflected in the carrying amount, even where parts of an asset have not previously been recognised as a separate component.

Under the Code, componentisation is to be applied prospectively from 1 April 2010. In the first year of application, a sample from each asset category has been reviewed for componentisation. Further, major enhancement work completed in year is subject to revaluation and as part of the five year rolling programme will also be assessed for componentisation.

Donated assets transferred to the Council without conditions attached are measured at fair value at the date of acquisition, with the credit being made to the Capital Adjustment Account via the Comprehensive Income and Expenditure and Movement in Reserves Statements. If conditions do exist, until those conditions are met, the gain is held as a Donated Assets Account liability.

Assets acquired in exchange for monetary and non-monetary assets are measured at fair value unless the exchange transaction has no commercial substance or the fair value of neither the asset received or given up can be reliably measured. The difference between fair value and any consideration paid is credited to Taxation and Non Specific Grant in the Comprehensive Income and Expenditure Statement, unless the donation has been made with conditions attached. Gains credited are reversed out of the General Fund Balance to the Capital Adjustment Account via the Movement in Reserves Statement.

Borrowing costs incurred whilst an asset is under construction are not capitalised.

*Impairment*

Asset values are reviewed each year for revaluation losses such as a significant decline in market value and impairment losses through obsolescence or physical damage. All impairment is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service.

This is a change in accounting policy as previously impairment losses were charged directly to the service, regardless of whether there was a Revaluation Reserve balance. The same approach is followed for revaluation losses, as previously.

The reversal of an impairment loss, previously recognised in Surplus or Deficit in the Provision of Services shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of an impairment loss is recognised in the circumstance that the increase in value is mirrored by the reversal of the external event that caused the original impairment to be recognised.

*Disposal/Derecognition*

The carrying amount of an item of property, plant or equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss from derecognition, which is the difference between the net disposal proceeds and the carrying amount of the asset, is credited or debited to the Surplus or Deficit on Provision of Services. This amount is then reversed out as a reconciling item in the Movement in Reserves Statement, resulting in a neutral impact on the amount that is required from local taxation. Related disposal costs are chargeable to revenue but can also, up to a specified limit, be financed from the any related capital receipt. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. Following the transfer of the housing stock the only relevant transactions are receipts in respect of the repayment of discounts and mortgage repayments.

The balance of receipts is required to be credited to the Capital Receipts Reserve, and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement).

*Charges to Revenue*

All services are charged with annual provision for depreciation for non current assets used in the provision of the service and impairment and revaluation losses as outlined above. Depreciation is provided for on all assets with a determinable useful life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line over the estimated life of the asset (typically 5 years) or as advised by a suitably qualified officer
- Infrastructure – straight line allocation over 40 years

Newly acquired assets are depreciated from the beginning of the financial year following acquisition, although assets in the course of construction are not depreciated until they are brought into use. Land is considered to have an infinite life and is therefore not depreciated.

The Council is not required to raise council tax to cover depreciation or impairment losses. However, it is required to set aside a minimum revenue provision (MRP) for repayment of debt. This charge is 4% of the Capital Financing Requirement (CFR) for capital expenditure incurred before 1 April 2008, plus 4% of any supported borrowing after that date. For capital expenditure incurred after 1 April 2008 and funded from unsupported borrowing the MRP is based on the individual asset's life.

Depreciation and impairment losses are replaced by the MRP in the Movement in Reserves Statement by way of a transfer to or from the Capital Adjustment Account.

The Council may also make additional voluntary payments in respect of assets with a limited life, such as vehicles, by reference to the residual life of those assets.

**xv. Investment Properties** - are properties that are held solely to earn rentals or for capital appreciation or

both. Properties that are also used to facilitate the delivery of services or production of goods are accounted for as property, plant and equipment.
Investment property is only recognised as an asset when:

- It is probable that the future economic benefits that are associated with the investment property will flow to the entity, and
- The cost or fair value of the investment property can be measured reliably.

Investment property is measured initially at cost. After initial recognition, the valuation is at fair value, reflecting market conditions at the balance sheet date. Investment properties are not subject to depreciation.

Investment properties of £150,000 and above are revalued annually to ensure that the carrying amount does not differ materially from that which would be determined if all assets were revalued at the balance sheet date rather than through the five year rolling programme of valuations used for all other current value assets.

**xvi. Assets Held for Sale** - Assets whose value will be recovered principally through a sale transaction and that meet strict criteria are classified as Current Assets Held for Sale, otherwise they remain as Non Current Assets. The following criteria have to be met before an asset can be classified as held for sale –

- The asset (or disposal group) must be available for immediate sale in its present condition.
- The sale must be highly probable
- The sale should be expected to be completed within one year
- The assets (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to the current value

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Held for Sale they are reclassified back to Non Current Assets and valued at the lower of its carrying amount before it was classified for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had it not been classified as Held for Sale, and its recoverable amount at the date of the decision not to sell).

Investment Property that the Council decides to sell is not reclassified as Held for Sale but remains Investment Property until the sale.

**xvii. Revenue Expenditure Funded from Capital Under Statute (REFCUS)** – REFCUS is expenditure that is incurred during the year that may be capitalised under statutory provisions but does not result in the creation of tangible assets. The purpose of this is to enable the expenditure to be funded from capital resources and examples include grants, advances and financial assistance to others.

This is charged to Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code that is then reversed out through a transfer to the Capital Adjustment Account via the Movement in Reserves Statement so that there is no impact on council tax.

**xviii. Leases**

*Finance Leases*

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the asset are transferred to the Council. This depends on the substance of the arrangement rather than the legal form of the contract. As lessee rentals payable are apportioned between:

- A charge for the acquisition of the interest in the asset (the principal element), which is recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset. The liability is written down as the rent is paid, and the payment included as part of the Minimum Revenue Provision in the Movement in Reserves Statement
- A finance charge to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

Assets recognised under finance leases are accounted for on the Council's Balance Sheet using the relevant policies for tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Where the Council acts as a lessor of an asset under a finance lease, a long term debtor is established with the amount receivable equal to the net investment in the lease. The lease payment receivable is treated as a capital receipt for the repayment of principal, reducing the debtor outstanding and the finance income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, calculated to produce a constant periodic rate of return on the net investment.

*Operating Leases*

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable under operating leases are charged to revenue on an accruals basis. Assets leased out under operating leases are held on the Balance Sheet and rentals are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease to the service receiving the benefit of the lease.

**xix. Financial Liabilities -** Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading a premium against the term of the new loan taken out, or a maximum of 10 years for a discount received. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**xx. Financial Assets** - Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

*Loans and Receivables*

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited is the amount receivable for the year in the loan agreement.

When soft loans are made (loans at less than market rates), a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the loan recipients, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Surplus or Deficit on the Provision of Services. Financial assets are considered both individually (where individually significant) and collectively for impairment.

The Council has made an impairment adjustment in respect of the investments frozen in Icelandic banks in 2008/09. The Council had previously determined not to charge amounts relating to these investments to the General Fund in accordance with Regulations issued in March 2009. Under these regulations the Council must transfer the balance to the General Fund by no later than 31 March 2011 and therefore the transfer has been completed in 2010/11.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

*Instruments Entered Into Before 1 April 2006*

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed.

**xxi. Acquired and Discontinued Operations**

*Acquired Operations*

Acquired operations are the ones that the Council has acquired during the accounting period as a result of the reorganisation of local government, or the transfer of services acquired as a consequence of legislation. The gross expenditure and income incurred as a result of any new responsibility during 2010/11 is shown separately on the face of the Comprehensive Income and Expenditure Statement.

*Discontinued Operations*

To qualify as discontinued operations activities must cease completely and, where applicable, these are presented separately on the face of the Comprehensive Income and Expenditure Statement.

**xxii. Interests in Companies and Other Entities** - the Council does not have, in aggregate, a material interest in any subsidiary companies, associated companies or joint ventures. Group Accounts have therefore not been prepared. It does, however, have a number of jointly controlled asset arrangements. For these arrangements the accounts only recognise the Council's share of income, expenditure, assets and liabilities.

**xxiii. Self Insurance -** the Council self-insures for various policies, subject to a "stop loss" arrangement where appropriate, to mitigate the costs of financial losses. The amount set aside at the year-end as a provision is based on an estimate of the potential liability at that date for known claims. An additional reserve is maintained to cover potential claims not yet made from prior years, to meet exceptional claims going forward and adjustments to future self insurance arrangements.

**xxiv. Cash and Cash Equivalents -** Cash includes all bank credit balances and overdrafts held by the Council as part of its normal cash management including all deposit accounts accessible without notice.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents include investments with a fixed maturity of three months or less from the date of acquisition and available for sale assets such as cash placed in money market funds.

**xxv. Inventories** – inventories are included in the Balance Sheet at the lower of cost and net realisable value. All internal work in progress outstanding at the year end is recharged to the service to which it refers, and is therefore eliminated. There is no external work in progress.

**xxvi. Long-term Contracts** – are accounted for on the basis of charging the Comprehensive Income and Expenditure Statement with the value of works and services received under the contract during the year. The Council does not currently have any Private Finance Initiative (PFI) schemes.

**xxvii. Landfill Allowance Trading Scheme (LATS)** – The LATS is a 'cap and trade' scheme, which allocates tradable landfill allowances to each Waste Disposal Authority (WDA) in England up to the amount of the WDA's cap that has been set to ensure that England meets its targets under the EU Landfill Directive. The LATS gives rise to:

- asset for allowances held
- LATS grant income; and
- a liability for actual biodegradable municipal waste (BMW) landfill usage.

The allowances are initially measured at their fair value. The fair value for initial recognition is market value at the initial recognition date for allowances allocated by DEFRA and for purchased allowances it is cost. Allowances are subsequently measured at the lower of initial recognition value and net realisable value.

The LATS grant income is initially recognised as deferred income in the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

As BMW landfill is used a liability is incurred for the obligation to hold allowances equal to landfill usage. The

liability is measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date.

**xxviii. Contingent Assets** - contingent assets are not incorporated into the accounting statements but are disclosed within the notes if the inflow of a receipt or economic benefit is likely.

**xxix. Contingent Liabilities -** contingent liabilities are not incorporated into the accounting statements. A disclosure is made in the notes to the Balance Sheet where there are any possible obligations that may require a payment or transfer of economic benefit. If it is probable that a transfer of future of economic benefits will be required then a provision is recognised in the Statement of Accounts.

**xxx. Events after the Balance Sheet Date** - where an event, with a material impact, occurs after the balance sheet date which provides additional evidence relating to conditions existing at the balance sheet date the amounts recognised in the Statement of Accounts are adjusted to reflect this.

For events that concern conditions which did not exist at the balance sheet date, the accounts are not adjusted but a separate disclosure note is made to the accounts.

**xxxi. Financial Relationship with North East Lincolnshire Care Trust Plus -** Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act) permits Primary Care Trusts to exercise various local authority functions and for local authorities to exercise various Primary Care Trust functions. The Council entered a "partnership agreement" with North East Lincolnshire Care Trust Plus (formerly North East Lincolnshire Primary Care Trust) on 1st September 2007. This partnership was established to enable the Care Trust Plus (CTP) to provide Adult Care Services delegated by the Council and the Council to provide certain Public Health functions delegated by the CTP. From 1 July 2008 certain services for children and young people transferred from the CTP to the Council**.**

The Council and the CTP are accounting for the partnership on the basis that each is funding the other to undertake delegated activities. The CTP will account for income and expenditure on the Adult Social Care functions in the appropriate service category and will account for the funding received from the Council as "providing" income. The Council shows the funding paid to the CTP for providing the delegated functions within its Comprehensive Income and Expenditure Statement.

The Council accounts for income and expenditure on Public Health and Children's Services functions in the appropriate service category and accounts for the funding received from the CTP as "providing" income. The partnership is also incorporated within related party disclosures.

As the Council is accountable for social care, government grants are accounted for within the Council's Comprehensive Income and Expenditure Statement and then passed to the CTP as part of the overall funding.

**xxxii. Accounting Standards that have been Issued but Not Yet Adopted** - For 2010/11, the only accounting policy change that needs to be reported relates to FRS30 – Heritage Assets. Disclosure requirements are expected to be included in the 2011/12 Code and a separate note outlining the potential impact is provided within the notes to these financial statements.

## 2. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is specified by the Best Value Accounting Code of Practice. However, decisions about resource allocations are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure, whereas depreciation, revaluation, and impairment losses in excess of the balance on the Revaluation Reserve and impairment reversals are charged to services in the Comprehensive Income and Expenditure Statement.
- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to directorates

The income and expenditure of the Council's principal directorates recorded in the budget reports for 2010/11 and for the previous year comparators is as follows:

| | Adult Social Care | Business Services | Children and Family Services | Community Services | Regeneration | Other | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2010/11** | | | | | | | |
| Fees, charges and other service income | (597) | (18,078) | (25,125) | (12,691) | (26,824) | (7,624) | **(90,939)** |
| Government grants | (891) | (70,988) | (127,155) | (1,355) | (3,137) | (1,174) | **(204,700)** |
| **Total Income** | **(1,488)** | **(89,066)** | **(152,280)** | **(14,046)** | **(29,961)** | **(8,798)** | **(295,639)** |
| Employee expenses | 532 | 10,685 | 108,218 | 16,001 | 6,082 | 6,696 | **148,214** |
| Other operating expenses | 47,783 | 72,133 | 90,334 | 24,516 | 56,301 | 3,859 | **294,926** |
| Support service recharges | 0 | 9,627 | 11,096 | 8,957 | 5,983 | 3,553 | **39,216** |
| **Total Operating Expenditure** | **48,315** | **92,445** | **209,648** | **49,474** | **68,366** | **14,108** | **482,356** |
| **Net Cost of Services** | **46,827** | **3,379** | **57,368** | **35,428** | **38,405** | **5,310** | **186,717** |
| **2009/10 Comparative Figures** | | | | | | | |
| Fees, charges and other service income | (3,756) | (17,045) | (36,224) | (15,803) | (30,416) | (10,333) | **(113,577)** |
| Government grants | (1,308) | (67,295) | (121,258) | (7,437) | (1,837) | 0 | **(199,135)** |
| **Total Income** | **(5,064)** | **(84,340)** | **(157,482)** | **(23,240)** | **(32,253)** | **(10,333)** | **(312,712)** |
| Employee expenses | 507 | 10,642 | 112,280 | 16,999 | 11,355 | 4,592 | **156,375** |
| Other operating expenses | 50,934 | 69,502 | 79,324 | 25,647 | 36,433 | 5,759 | **267,599** |
| Support service recharges | 0 | 8,855 | 10,472 | 10,767 | 5,323 | 5,388 | **40,805** |
| **Total Operating Expenditure** | **51,441** | **88,999** | **202,076** | **53,413** | **53,111** | **15,739** | **464,779** |
| **Net Cost of Services** | **46,377** | **4,659** | **44,594** | **30,173** | **20,858** | **5,406** | **152,067** |

**Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement**

| **2009/10 £'000** | | **2010/11 £'000** |
|---|---|---|
| 152,067 | Cost of services in the directorate analysis | 186,717 |
| 1,915 | Net cost of services and support services not included in the analysis | (65,753) |
| (6,842) | Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the directorate analysis | (1,051) |
| (974) | Amounts in the directorate analysis not included in the Comprehensive Income and Expenditure Statement | 3,261 |
| **146,166** | **Net Cost of Services in Comprehensive Income and Expenditure Statement** | **123,174** |

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| | Directorate Analysis | Services and Support Services not in Analysis | Amounts not reported to management | Not included in Income & Expenditure | Allocation of Recharges | Net Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2010/11** | | | | | | | | |
| Fees, charges and other service income | (90,939) | (10,953) | 0 | 4,734 | 56,369 | **(40,789)** | 0 | **(40,789)** |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | **0** | (990) | **(990)** |
| Surplus or deficit on trading undertakings | 0 | 0 | 0 | 0 | 0 | **0** | (1,083) | **(1,083)** |
| Impairment of Icelandic banks investments | 0 | 0 | 0 | 0 | 0 | **0** | (372) | **(372)** |
| Movements in the Market Value of Investments | 0 | 0 | 0 | 0 | 0 | **0** | (2,081) | **(2,081)** |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | **0** | (60,030) | **(60,030)** |
| Government grants and contributions | (204,700) | 0 | 0 | 9,811 | 0 | **(194,889)** | (124,615) | **(319,504)** |
| **Total Income** | **(295,639)** | **(10,953)** | **0** | **14,545** | **56,369** | **(235,678)** | **(189,171)** | **(424,849)** |
| Employee expenses | 148,214 | (511) | (1,051) | (217) | 0 | **146,435** | 0 | **146,435** |
| Other service expenses | 250,156 | (54,289) | 0 | (10,952) | (17,268) | **167,647** | 0 | **167,647** |
| Support Service recharges | 39,216 | 0 | 0 | (115) | (39,101) | **0** | 0 | **0** |
| Depreciation and impairment | 44,770 | 0 | 0 | 0 | 0 | **44,770** | 0 | **44,770** |
| Pensions interest cost and expected return on assets | 0 | 0 | 0 | 0 | 0 | **0** | 7,562 | **7,562** |
| Interest payable and similar charges | 0 | 0 | 0 | 0 | 0 | **0** | 4,038 | **4,038** |
| Precepts and levies | 0 | 0 | 0 | 0 | 0 | **0** | 1,098 | **1,098** |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | **0** | 2 | **2** |
| Gain or loss on disposal of non current assets | 0 | 0 | 0 | 0 | 0 | **0** | 39,987 | **39,987** |
| **Total Expenditure** | **482,356** | **(54,800)** | **(1,051)** | **(11,284)** | **(56,369)** | **358,852** | **52,687** | **411,539** |
| **Surplus or Deficit on the Provision of Services** | **186,717** | **(65,753)** | **(1,051)** | **3,261** | **0** | **123,174** | **(136,484)** | **(13,310)** |
| **2009/10 Comparative Figures** | | | | | | | | |
| Fees, charges and other service income | (113,577) | 0 | 0 | 2,585 | (2,442) | **(113,434)** | 0 | **(113,434)** |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | **0** | (958) | **(958)** |
| Surplus or deficit on trading undertakings | 0 | 0 | 0 | 0 | 0 | **0** | (835) | **(835)** |
| Impairment of Icelandic banks investments | 0 | 0 | 0 | 0 | 0 | **0** | (407) | **(407)** |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | **0** | (60,079) | **(60,079)** |
| Government grants and contributions | (199,135) | 0 | 0 | 0 | 0 | **(199,135)** | (92,426) | **(291,561)** |
| **Total Income** | **(312,712)** | **0** | **0** | **2,585** | **(2,442)** | **(312,569)** | **(154,705)** | **(467,274)** |
| Employee expenses | 156,375 | 494 | (6,842) | (2,324) | 14,865 | **162,568** | 0 | **162,568** |
| Other service expenses | 267,599 | 1,199 | 0 | (1,009) | 28,378 | **296,167** | 0 | **296,167** |
| Support Service recharges | 40,805 | 222 | 0 | (226) | (40,801) | **0** | 0 | **0** |
| Depreciation and impairment | 0 | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| Pensions interest cost and expected return on assets | 0 | 0 | 0 | 0 | 0 | **0** | 10,046 | **10,046** |
| Interest payable and similar charges | 0 | 0 | 0 | 0 | 0 | **0** | 4,040 | **4,040** |
| Precepts and levies | 0 | 0 | 0 | 0 | 0 | **0** | 1,114 | **1,114** |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | **0** | 2 | **2** |
| Gain or loss on disposal of non current assets | 0 | 0 | 0 | 0 | 0 | **0** | (814) | **(814)** |
| **Total Expenditure** | **464,779** | **1,915** | **(6,842)** | **(3,559)** | **2,442** | **458,735** | **14,388** | **473,123** |
| **Surplus or Deficit on the Provision of Services** | **152,067** | **1,915** | **(6,842)** | **(974)** | **0** | **146,166** | **(140,317)** | **5,849** |

The 2009/10 comparative figures within this note are those reported to management on the basis of the previous accounting requirements as they were in force at the time of the reports. The figures therefore do not agree to the Net Cost of Services in the Comprehensive Income and Expenditure Statement and the Surplus and Deficit on the Provision of Services.

The subsequent changes to reconcile to this statement are summarised below –

| | Net Cost of Services | Other Operating Expenditure | Income from Taxation and Non Specific Grant | (Surplus) Deficit on Provision of Services |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **2009/10 Comparative Figures** | | | | |
| **Comprehensive Income and Expenditure Statement (SORP)** | **146,166** | **12,188** | **(152,505)** | **5,849** |
| Adjusted for - | | | | |
| Short-term Accumulating Absences | 208 | (2) | 0 | 206 |
| Government Grants | 8,957 | 0 | (27,316) | (18,359) |
| Asset Classifications, Revaluations and Impairment | 4,936 | (2,549) | 0 | 2,387 |
| **Comprehensive Income and Expenditure Statement (IFRS)** | **160,267** | **9,637** | **(179,821)** | **(9,917)** |

## 3. Impairment of Icelandic Banks Investments

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander (KSF) went into administration. The Authority had £7m deposited across two of these institutions, with varying maturity dates and interest rates.

The following table details the investments in those Icelandic Banks:

| Bank | Date Invested | Maturity Date | Amount Invested £'000 | Interest Rate |
|---|---|---|---|---|
| KSF | 05/08/08 | 17/10/08 | 1,500 | 5.65% |
| KSF | 02/10/08 | 12/12/08 | 3,000 | 6.20% |
| Landsbanki | 15/08/08 | 31/10/08 | 1,000 | 5.71% |
| Landsbanki | 03/10/08 | 24/12/08 | 1,500 | 6.32% |
| **Sub Total** | | | **7,000** | |

The impairment of these assets has been charged as an exceptional item within the Council's Comprehensive Income and Expenditure Statement, through an initial estimate in 2008/09 that has been adjusted in 2009/10 and 2010/11 to reflect actual repayments received and anticipated future recovery of outstanding sums. In 2010/11, the impairment amounts have been adjusted as follows:

| Bank | Carrying Amount as at 31 March 2011 £'000 | | Impairment Charged as at 31 March 2010 £000 | Impairment Charged as at 31 March 2011 £000 | Impairment Adjustment in 2010/11 £000 |
|---|---|---|---|---|---|
| KSF | 421 | | 596 | 457 | (139) |
| KSF | 814 | | 1,214 | 881 | (333) |
| Landsbanki | 767 | | 343 | 384 | 41 |
| Landsbanki | 1,126 | | 551 | 610 | 59 |
| **Sub Total** | **3,128** | | **2,704** | **2,332** | **(372)** |

The carrying amounts of the investments are included in the balance sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate. The payments received to date and expected future repayments have been estimated as follows, based on the statements made by the administrator:

| Date | KSF £'000 | Landsbanki £'000 | Total £'000 |
|---|---|---|---|
| July 2009 | 904 | - | 904 |
| December 2009 | 452 | - | 452 |
| April 2010 | 226 | - | 226 |
| July 2010 | 452 | - | 452 |
| December 2010 | 361 | - | 361 |
| May 2011 | 226 | - | 226 |
| December 2011 | - | 562 | 562 |
| January 2012 | 361 | - | 361 |
| July 2012 | 361 | - | 361 |
| December 2012 | - | 225 | 225 |
| January 2013 | 361 | - | 361 |
| December 2013 | - | 225 | 225 |
| December 2014 | - | 225 | 225 |
| December 2015 | - | 225 | 225 |
| December 2016 | - | 225 | 225 |
| December 2017 | - | 225 | 225 |
| December 2018 | - | 493 | 493 |
| **Sub Total** | **3,704** | **2,405** | **6,109** |

Interest credited to the Comprehensive Income and Expenditure Statement in respect of the investments was as follows:

| Bank | Credited 2010/11 £'000 | Received 2010/11 £'000 |
|---|---|---|
| KSF | 86 | 4 |
| Landsbanki | 152 | 0 |
| **Total** | **238** | **4** |

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators/receivers and the latest information is provided below.

**Kaupthing Singer and Friedlander Ltd**

The latest creditors report in May 2011 estimates that total distributions to unsecured creditors should be in the range of 78p to 86p in the pound. A first interim payment was made in July 2009 for 20% of the claim. Since then further dividends have been paid (10% in December 2009, 5% in March 2010, 10% in July 2010 and 8% in December 2010), bringing the total dividends paid to date to 53% of the claim.

The Council has decided to recognise an impairment amount based on it recovering 82p in the pound. In calculating the impairment the Council has made the assumption that the remaining 29% recovery will be split as indicated in the table above.

Recoveries are expressed as a percentage of the authority's claim on the administration, which includes interest accrued up to October 2008.

**Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (new Landsbanki), with the management

of the affairs of Old Landsbanki being placed in the hands of a resolution committee.

The latest creditors’ report was issued on 19 May 2011. This and other relevant information indicates that recovery of 94.85% could be achieved by 2018. The Council has therefore decided to recognise an impairment amount based on it recovering 94.85p in the pound.

Recovery is subject to the following uncertainties and risks:

- confirmation that deposits enjoy preferential creditor status is likely to be challenged further in the courts
- the impact on exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Authority’s claim, which may be denominated wholly or partly in currencies other than sterling

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. If preferential creditor status is not achieved the recoverable amount is likely to be in the region of 38%.

In calculating the impairment the Council has made the assumption that the remaining recovery will be received as indicated in the table above.

Recoveries are expressed as a percentage of the Council’s claim in the administration, which it is expected will include interest accrued up to 14 November 2008 [maturity date if earlier].

**Capital Finance Regulations**

Regulations issued in March 2009 allowed the Authority not to charge amounts relating to impaired investments to the General Fund in 2008/09 and 2009/10. Such amounts were instead transferred to the Financial Instruments Adjustment Account, an account that records the timing differences between charging these amounts to the General Fund in accordance with proper practice and in accordance with the regulations.

This facility has now time expired and the impact of the impairment has now to be charged to the General Fund and the amounts transferred back from the Financial Instruments Adjustment Account. The Council had set up an earmarked reserve in a previous year to cover these additional costs.

The Council has transferred the following amounts to and from the Financial Instruments Adjustment Account (FIAA) during the year.

| Bank | Balance on FIAA at 01/04/10 £’000 | Interest Credited in Year £’000 | Impairment Adjustment in Year £’000 | Transfer Balance to General Fund £’000 | Balance as at 31/03/11 £’000 |
|---|---|---|---|---|---|
| KSF | 1,438 | (86) | (472) | (880) | 0 |
| Landsbanki | 659 | (152) | 100 | (607) | 0 |
| **Total** | **2,097** | **(238)** | **(372)** | **(1,487)** | **0** |

## 4. Trading Operations

The table below shows those operating units of the Council where service managers are required to operate within a commercial environment and balance their budget by generating income from other parts of the Council, other organisations and the general public.

| 2009/10 Restated | | | 2010/11 | |
|---|---|---|---|---|
| Turnover £'000 | (Surplus)/ deficit £'000 | | Turnover £'000 | (Surplus)/ deficit £'000 |
| 79 | (67) | Trade Waste | 53 | (52) |
| 1,713 | (662) | Car Parks | 1,598 | (894) |
| 18 | (15) | Market Management | 31 | (21) |
| 0 | 0 | Bradley Pitches | 228 | (116) |
| **1,810** | **(744)** | **Net Position on Trading Units** | **1,910** | **(1,083)** |

The 2009/10 figures have been restated as a result of IFRS changes that impact on trading operations, as

outlined in the summary in disclosure note 1 of the financial statements.

## 5. Pension Schemes

As part of the terms and conditions of employment, the Council offers its employees retirement benefits. Although these benefits will not actually be payable until employees retire, the Council must account for retirement benefits when it is committed to give them, i.e. when the employees earn their future entitlement.

The Council is involved in two major pension schemes:

**Teachers Pension Scheme**

This scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes.

For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The employer's contribution rate is determined by the DfE and for 2010/11 was 14.1% (14.1% in 2009/10). An amount of £5.1m was paid to the Fund in respect of employer's contributions in 2010/11 (£5.8m in 2009/10).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers Scheme. These costs are accounted for on a defined benefits basis.

**Local Government Pension Scheme**

This scheme is a defined benefit scheme that is administered locally by East Riding of Yorkshire Council. The Council and its employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The last relevant review by the Fund's actuary was at 31 March 2010.

Arrangements for the award of discretionary post retirement benefits upon early retirement is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they fall due.

**Transactions Relating to Retirement Benefits**

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2009/10 £'000 | | | 2010/11 £'000 |
|---|---|---|---|
| | **Comprehensive Income and Expenditure Statement** | | |
| | **Cost of Services:** | | |
| 6,475 | Current Service Cost | | 11,883 |
| 359 | Past Service Cost | | (53,097) |
| 37 | Settlements and Curtailments | | (3,160) |
| | **Financing and Investment Income and Expenditure** | | |
| 23,017 | Interest Cost | 27,191 | |
| (12,971) | Expected Return on Scheme Assets | (19,629) | |
| 10,046 | ***Sub Total*** | | 7,562 |
| **16,917** | **Charge to Surplus/Deficit on the Provison of Services** | | **(36,812)** |
| | **Other Comprehensive Income and Expenditure** | | |
| 132,259 | Actuarial gains and losses | | (56,213) |
| **149,176** | **Total Charge to Comprehensive Income and Expenditure** | | **(93,025)** |
| | **Movement in the Reserves Statement** | | |
| **(1,299)** | Reversal of Net Charges Made to Surplus/Deficit for the Provision of Services | | **52,030** |
| **15,618** | **Actual Amount Charged Against General Fund Balance for Pensions in the Year:** | | **15,218** |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a loss of £104.1m (£160.3m at 31 March 2010 – as restated).

The actual amount charged against General Fund balances in respect of the Local Government Pension Scheme in the year included:

- employer's contributions amounting to £12.9m (£13.4m in 2009/10) representing 23.2% of pensionable pay (22.7% in 2009/10), and

- discretionary pension costs amounting to £2.6m (£2.3m in 2009/10), as detailed below:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 1,302 | Discretionary Pensions Funded on Ongoing Basis - Teachers | 1,282 |
| 1,001 | Discretionary Pensions Funded on Ongoing Basis - Other employees | 975 |
| 40 | Discretionary Pensions Funded by Augmentation - Teachers | 190 |
| 22 | Discretionary Pensions Funded by Augmentation - Other employees | 119 |
| **2,365** | | **2,566** |

Discretionary pensions are increases in pension payments (e.g. added years) agreed by the Council for which pension payments are still being made.

In 1998/99 a decision was made to fund discretionary added years by augmentation. Augmentation is a single payment paid by the Council into the Pension Fund. This payment is calculated when the retirement occurs and covers the ongoing liabilities relating to that retirement together with the cash flow costs of the early payment of the lump sum.

The costs of discretionary benefits awarded prior to 1998/99 continue to be charged to the Council as and when pension payments are made to the individual and will continue to be charged over the remaining lives of the individuals. Payments made on an ongoing basis in 2010/11 are therefore a consequence of decisions made in earlier years.

**Assets and Liabilities in Relation to Retirement Benefits**

Reconciliation of present value of scheme liabilities:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **(334,429)** | **1 April** | **(552,025)** |
| (6,475) | Current service cost | (11,883) |
| (23,017) | Interest Cost | (27,191) |
| (3,731) | Contributions by members | (3,544) |
| (196,745) | Actuarial gains / (losses) | 63,818 |
| 13,142 | Estimated benefits paid | 14,306 |
| 2,262 | Estimated unfunded benefits | 2,284 |
| (359) | Past service costs | 53,097 |
| (37) | Losses / (Gains) on curtailments | (313) |
| 0 | Liabilities Extinguished on Settlements | 20,619 |
| (2,636) | Liabilities Assumed in a Business Combination | 0 |
| **(552,025)** | **31 March** | **(440,832)** |

Reconciliation of fair value of the scheme assets:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **196,326** | **1 April** | **280,365** |
| 12,971 | Expected return on assets | 19,629 |
| 64,816 | Actuarial gains / (losses) | (7,604) |
| 13,356 | Employer contributions | 12,935 |
| 3,731 | Contributions by members | 3,544 |
| 2,262 | Contributions in respect of unfunded benefits | 2,284 |
| 2,307 | Assets Acquired in a Business Acquisition | 0 |
| (13,142) | Benefits paid | (14,306) |
| 0 | Assets Distributed on Settlements | (17,146) |
| (2,262) | Unfunded benefits paid | (2,284) |
| **280,365** | **31 March** | **277,417** |

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices index (RPI). This has the effect of reducing the Authority's liabilities in 2010/11 Pension Fund by £53.1m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

It should be noted, however, that a challenge to the legality of the Government's decision to use the CPI as an estimate of the 'general level of prices', brought by a group of trade unions, is scheduled to be considered by the High Court in July.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed asset investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £23.960m (2009/10 £77.856m).

**Scheme History**

| | As at 31 March 2007 £'000 | As at 31 March 2008 £'000 | As at 31 March 2009 £'000 | As at 31 March 2010 £'000 | As at 31 March 2011 £'000 |
|---|---|---|---|---|---|
| Present value of Liabilities | (417,904) | (341,718) | (334,429) | (552,025) | (440,833) |
| Fair value of assets in LGPS | 279,720 | 254,363 | 196,326 | 280,365 | 277,416 |
| **Surplus/(deficit)** | **(138,184)** | **(87,355)** | **(138,103)** | **(271,660)** | **(163,417)** |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £163.4m has a substantial effect on the net worth of the Council, as recorded in the Balance Sheet. However, under statutory arrangements for funding, the deficit on the local government scheme will be made good by increased contributions by the employer and employee over the remaining working life of employees as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £12.2m.

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Liabilities have been assessed by Hyman Robertson, an independent firm of actuaries, based on the latest full valuation of the scheme at 31 March 2010.

The principal assumptions used by the actuary have been:

| 2009/10 | | 2010/11 |
|---|---|---|
| | **Long term expected rate of return on assets in the scheme** | |
| 7.8% | Equities | 7.5% |
| 5.0% | Bonds | 4.9% |
| 5.8% | Property | 5.5% |
| 4.8% | Cash | 4.6% |
| | **Rates of inflation** | |
| 3.8% | Price increases | 2.8% |
| 5.3% | Salary Increases | 5.1% |
| 3.8% | Pension increases | 2.8% |
| 30.0% | Proportion of employees opting to take commuted lump sum | 30.0% |
| 5.5% | Rate for discounting scheme liabilities | 5.5% |
| | | |
| **Current** | **Longevity at 65 for pensioners** | **Current** |
| 22.7 years | Men | 22.9 years |
| 26.1 years | Women | 25.7 years |
| | | |
| **Future** | **Longevity at 65 for pensioners** | **Future** |
| 24.8 years | Men | 24.9 years |
| 28.3 years | Women | 27.7 years |

The Local Government Pension Scheme's assets consist of the following categories, by proportion of total assets held:

| | 1 April 2009 | | 31 March 2010 | | | 31 March 2011 |
|---|---|---|---|---|---|---|
| % | £'000 | % | £'000 | | % | £'000 |
| 77 | 151,171 | 81 | 227,096 | Equities | 78 | 216,385 |
| 12 | 23,559 | 10 | 28,036 | Bonds | 10 | 27,742 |
| 5 | 9,816 | 4 | 11,215 | Property | 5 | 13,871 |
| 6 | 11,780 | 5 | 14,018 | Cash | 7 | 19,419 |
| | **196,326** | | **280,365** | | | **277,417** |

**History of Experience Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011.

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Difference Between Expected and Actual Return on Assets | 0.7 | (13.6) | (41.3) | 32.4 | 15.7 |
| Experience Gains and Losses (-) on Liabilities | 0.2 | 0.1 | (0.2) | (0.5) | 4.6 |

## 6. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

**Credited to Taxation and Non Specific Grant Income**

These are grants and contributions where there are no outstanding conditions on what the money can be spent:

| 2009/10 £'000 | | 2010/11 £'000 | 2010/11 £'000 |
|---|---|---|---|
| 56,964 | **National Non Domestic Rate Grant** | | 63,545 |
| 20,756 | Area Based Grant | 21,876 | |
| 13,148 | Revenue Support Grant | 9,227 | |
| | **General Revenue Grants and Contributions** | | 31,103 |
| 11,208 | Targeted Capital | 17,588 | |
| 3,000 | Primary Capital Programme | 3,988 | |
| - | Capital Modernisation | 2,025 | |
| 2,518 | Devolved Formula Capital | 1,226 | |
| 2,367 | Regional Housing Board | 1,113 | |
| 9,781 | Other Grants and Contributions | 4,027 | |
| | **Capital Grants and Contributions** | | 29,967 |
| **119,742** | **Total** | | **124,615** |

**Credited to Services**

These are grants and contributions that have conditions on what the money is spent on and that are therefore recognised within specific services to finance related spend:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 92,952 | Dedicated Schools Grant | 85,920 |
| 49,629 | Rent Allowances | 53,094 |
| 15,260 | Council Tax Benefits | 15,529 |
| 5,322 | Sure Start Early Years | 7,551 |
| 5,193 | School Development Grant | 5,085 |
| 6,661 | Supporting People | - |
| 22,236 | Other Grants and Contributions | 27,711 |
| **197,253** | | **194,890** |

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that have not yet been met. Until the grant conditions are met the Council records these amounts as receipts in advance:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 7,900 | Targeted Capital Grant | 1,675 |
| - | Regional Housing Board | 966 |
| 429 | Standards Fund - Extended Schools | 527 |
| 2,318 | Other Grants and Contributions | 4,224 |
| **10,647** | | **7,392** |

## 7. Events After the Balance Sheet Date

This note considers events that arise after the balance sheet date, which concerns conditions that did not exist at that time and are of such materiality that their disclosure is required for the fair presentation of the final statements. Events after the balance sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue.

There are no matters that have not already been reflected elsewhere in the Accounts.

## 8. Landfill Allowance Trading Scheme

The Landfill Allowance Trading Scheme (LATS) is a ‘cap’ and ‘trade’ scheme which commenced operation on 1 April 2005.

The Council receives annual allowances to use landfill from the Department for Environment, Food and Rural Affairs (DEFRA). If the Council uses less landfill than it receives in allowances then it can sell them to another waste disposal authority (WDA).

On the other hand if the Council exceeds its allowance it must either purchase further allowances or pay a financial penalty to DEFRA.

The Council has had an excess of LATS allowances since the scheme's inception. However, there is currently an excess of allowances in the market and trade has been severely restricted. As a result, it has not been possible to attribute any value to the allowances and no transactions of any value have been included within the accounts.

## 9. Health Act 1999 Pooled Funds

The CIPFA Code of Practice requires disclosures in respect of pooled funds relating to joint working arrangements between the National Health Service and local authorities.

Whilst there are no pooled funds under the Health Act 1999, the Council has entered a partnership arrangement under Section 75 of the NHS Act 2006 with North East Lincolnshire Care Trust Plus (CTP). This partnership enables the CTP to provide Adult Care Services delegated by the Council and the Council to provide certain Public Health and Children's Health functions delegated by the CTP. Further details are included within the Accounting Policies disclosure note.

## 10. Members Allowances

The total amount paid to Members in 2010/11 in respect of Members' Allowances, including travel and subsistence, was £0.539m (£0.580m in 2009/10).

## 11. Officers Remuneration

The Code, supplemented by the Accounts and Audit Regulations 2011, contains requirements for the disclosure of the individual remuneration of senior employees and figures for the number of officers whose remuneration was £50,000 or more, grouped in £5,000 bands.

These are separately disclosed below –

**Senior Officers with a salary of £150,000 per year or more:**

| Post holder information | Salary (Including Fees & Allowances) | Expense Allowance | Total Remuneration excluding pension contributions | Pension contributions | Total Remuneration including pension contributions |
|---|---|---|---|---|---|
| **Year 2010/11** | | | | | |
| A Hunter<br>Chief Executive | 150,000 | 3,057 | 153,057 | 31,610 | 184,667 |
| **Year 2009/10** | | | | | |
| A Hunter<br>Chief Executive | 150,000 | 2,108 | 152,108 | 31,086 | 183,194 |
| D Hampson,<br>Principal & Chief Executive,<br>Toll Bar Enterprise College | 159,269 | - | 159,269 | 22,456 | 181,725 |

The remuneration of D Hampson Principal and Chief Executive, Toll Bar Enterprise College, is not included in the above figures for 2010/11 as the school became an academy in September 2010. For the pay up to that date he is included in the appropriate employee salary banding in the table at the foot of this note. Mr Hampson has also not been a member of the Council's Management Team.

**Senior Officers with a salary of between £50,000 and £150,000 per year:**

| Post holder information (Post title and name) | Salary (Including Fees & Allowances) | Compens-ation for loss of office | Expense Allowance | Total Remuneration excluding pension contributions | Pension contributions | Total Remuneration including pension contributions |
|---|---|---|---|---|---|---|
| **Year 2010/11** | | | | | | |
| Deputy Chief Executive | 125,000 | 0 | 721 | 125,721 | 27,249 | 152,970 |
| Executive Director Community Services | 120,000 | 0 | 1,078 | 121,078 | 26,160 | 147,238 |
| Executive Director Regeneration | 120,000 | 0 | 466 | 120,466 | 26,160 | 146,626 |
| Executive Director Business Services | 120,000 | 0 | 8 | 120,008 | 26,160 | 146,168 |
| Chief Financial Officer | 84,319 | 0 | 1,916 | 86,235 | 17,964 | 104,199 |
| Director of Public Health | 53,917 | 0 | 558 | 54,475 | 7,389 | 61,864 |

Senior officer emoluments costs do not include election returning officer fees

| Post holder information (Post title and name) | Salary (Including fees & Allowances) | Compens-ation for loss of office | Expense Allowance | Total Remuneration excluding pension contributions | Pension contributions | Total Remuneration including pension contributions |
|---|---|---|---|---|---|---|
| **Year 2009/10** | | | | | | |
| Deputy Chief Executive | 125,003 | 0 | 182 | 125,185 | 26,751 | 151,936 |
| Executive Director Business Services | 120,276 | 0 | 263 | 120,539 | 25,795 | 146,334 |
| Executive Director Regeneration | 108,710 | 0 | 0 | 108,710 | 23,264 | 131,974 |
| Executive Director Community Services | 102,258 | 0 | 1,152 | 103,410 | 21,883 | 125,293 |
| Director of Public Health | 73,291 | 0 | 1,634 | 74,925 | 9,392 | 84,317 |
| Acting Chief Financial Officer | 42,822 | 0 | 0 | 42,822 | 9,047 | 51,869 |

The following officers were in not in post throughout the financial year:

- Executive Director Regeneration started with the Council 5 May 2009
- Executive Director Community Services started with the Council 25 May 2009
- Acting Chief Finance Officer left the role 13 September 2009
- The post of Executive Director of Children & Family Services was covered by an interim officer

Employees of Foundation, voluntary-aided and voluntary controlled schools are included where their costs are included as salary costs in the gross expenditure in the Comprehensive Income and Expenditure Statement. Academy schools are not included.

The number of Council employees (excluding senior officers who are shown above) whose remuneration, excluding pension contributions, was £50,000 or more were:

| 2009/10 No. of Employees | | | | 2010/11 No. of Employees | | |
|---|---|---|---|---|---|---|
| **Teachers** | **Other** | **Total** | **Remuneration Band:** | **Teachers** | **Other** | **Total** |
| 37 | 22 | 59 | £50,000 - £54,999 | 27 | 23 | 50 |
| 26 | 6 | 32 | £55,000 - £59,999 | 25 | 9 | 34 |
| 15 | 6 | 21 | £60,000 - £64,999 | 19 | 7 | 26 |
| 5 | 2 | 7 | £65,000 - £69,999 | 4 | 3 | 7 |
| 2 | 7 | 9 | £70,000 - £74,999 | 1 | 5 | 6 |
| 4 | 0 | 4 | £75,000 - £79,999 | 2 | 0 | 2 |
| 0 | 4 | 4 | £80,000 - £84,999 | 3 | 3 | 6 |
| 1 | 0 | 1 | £85,000 - £89,999 | 2 | 0 | 2 |
| 0 | 0 | 0 | £90,000 - £94,999 | 1 | 0 | 1 |
| 0 | 0 | 0 | £95,000 - £99,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £100,000 - £104,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £105,000 - £109,999 | 0 | 1 | 1 |
| 1 | 0 | 1 | £110,000 - £114,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £115,000 - £119,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £120,000 - £124,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £125,000 - £129,999 | 0 | 1 | 1 |
| **91** | **47** | **138** | | **84** | **52** | **136** |

## 12. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a restricted range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 are as follows:

| | Central Expenditure £'000 | Individual Schools Budget £'000 | Total £'000 |
|---|---|---|---|
| Final DSG for 2010/11 | | | 85,425 |
| Brought forward from 2009/10 | | | (332) |
| Carry forward to 2011/12 agreed in advance | | | 0 |
| Agreed budget distribution in 2010/11 | **13,920** | **71,173** | **85,093** |
| Actual central expenditure | (14,286) | 0 | (14,286) |
| Actual ISB deployed to schools | 0 | (71,173) | (71,173) |
| Council's contribution for 2010/11 | 0 | 0 | 0 |
| **Carry forward to 2011/12** | **(366)** | **0** | **(366)** |

The Dedicated Schools Grant (DSG) required £0.366m to be brought forward from 2011/12 allocations into 2010/11. This is permitted under the Schools Financing Regulations. This was primarily to meet the deficit of a closing school which had to be charged against DSG.

## 13. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details adjustments made to the total comprehensive income and expenditure recognised for the year (and comparator year) in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movements in Unusable Reserves |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **2009/10** | | | | |
| **Adjustments involving the Capital Adjustment Account** | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement** | | | | |
| Charges for depreciation and impairment of non current assets | (23,223) | 0 | 0 | 23,223 |
| Revaluation losses on Property, Plant and Equipment | (3,096) | 0 | 0 | 3,096 |
| Movements in the market value of investments | 916 | 0 | 0 | (916) |
| Amortisation of Intangible Fixed Assets | (451) | 0 | 0 | 451 |
| Capital grants and contributions | 35,161 | 0 | (3,731) | (31,430) |
| Revenue Expenditure Funded from Capital Under Statute | (8,933) | 0 | 0 | 8,933 |
| Net gain or loss on disposal of non current assets | 816 | 0 | 0 | (816) |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement** | | | | |
| Minimum Revenue Provision for the financing of capital investment | 4,172 | 0 | 0 | (4,172) |
| Voluntary Revenue Provision for the financing of capital investment | 671 | 0 | 0 | (671) |
| Capital expenditure charged to the General Fund Balance | 442 | 0 | 0 | (442) |
| **Adjustment involving the Capital Receipts Reserve** | | | | |
| Transfer of sale proceeds credited as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0 | (2,720) | 0 | 2,720 |
| Use of capital receipts to finance capital investment | 0 | 2,718 | 0 | (2,718) |
| Contribution from Capital Receipts Reserve to finance payments to the Government capital receipts pool | (2) | 2 | 0 | 0 |
| **Adjustment involving the Pensions Reserve** | | | | |
| Difference between pension costs calculated in accordance with the Code and contributions due under pension scheme regulations | (1,299) | 0 | 0 | 1,299 |
| **Adjustment involving the Financial Instrument Adjustment Account** | | | | |
| Mitigation of Icelandic Banks Investment Impairment | 785 | 0 | 0 | (785) |
| **Adjustment involving the Collection Fund Adjustment Account** | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from that calculated in accordance with statute | 797 | 0 | 0 | (797) |
| **Adjustment involving the Accumulating Absences Adjustment Account** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from that calculated in accordance with statute | (206) | 0 | 0 | 206 |
| **Total Adjustments** | **6,550** | **0** | **(3,731)** | **(2,819)** |

| | General Fund Balance £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Movements in Unusable Reserves £'000 |
|---|---|---|---|---|
| **2010/11** | | | | |
| **Adjustments involving the Capital Adjustment Account** | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement** | | | | |
| Charges for depreciation and impairment of non current assets | (17,965) | 0 | 0 | 17,965 |
| Revaluation losses on Property, Plant and Equipment | (26,334) | 0 | 0 | 26,334 |
| Movements in the market value of investments | (96) | 0 | 0 | 96 |
| Amortisation of Intangible Fixed Assets | (470) | 0 | 0 | 470 |
| Capital grants and contributions | 34,954 | 0 | (301) | (34,653) |
| Revenue Expenditure Funded from Capital Under Statute | (7,316) | 0 | 0 | 7,316 |
| Net gain or loss on disposal of non current assets | (39,987) | 0 | 0 | 39,987 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement** | | | | |
| Minimum Revenue Provision for the financing of capital investment | 4,538 | 0 | 0 | (4,538) |
| Voluntary Revenue Provision for the financing of capital investment | 817 | 0 | 0 | (817) |
| Capital expenditure charged to the General Fund Balance | 1,721 | 0 | 0 | (1,721) |
| **Adjustment involving the Capital Receipts Reserve** | | | | |
| Transfer of sale proceeds credited as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0 | (1,482) | 0 | 1,482 |
| Use of capital receipts to finance capital investment | 0 | 700 | 0 | (700) |
| Contribution from Capital Receipts Reserve to finance payments to the Government capital receipts pool | (2) | 2 | 0 | 0 |
| **Adjustment involving the Pensions Reserve** | | | | |
| Difference between pension costs calculated in accordance with the Code and contributions due under pension scheme regulations | 52,030 | 0 | 0 | (52,030) |
| **Adjustment involving the Financial Instrument Adjustment Account** | | | | |
| Icelandic Banks Investment Impairment | 2,097 | 0 | 0 | (2,097) |
| **Adjustment involving the Collection Fund Adjustment Account** | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from that calculated in accordance with statute | 259 | 0 | 0 | (259) |
| **Adjustment involving the Accumulating Absences Adjustment Account** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from that calculated in accordance with statute | 1,646 | 0 | 0 | (1,646) |
| **Total Adjustments** | **5,892** | **(780)** | **(301)** | **(4,811)** |

## 14. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Grants received from Government departments are set out in the subjective analysis in note 2 on reporting for resource allocation decisions, with more detail provided in note 6 which provides an analysis of grant income.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2010/11 is shown in note 10. In addition to their normal involvement on various Council Committees many Members and some officers also act as the Council's representative on a range of outside and voluntary bodies – some such representation follows from their Committee membership(s). A list of representatives appointed to outside bodies during 2010/11 was included in the minutes of the Annual Meeting of the Council. Meetings of the Council during the year agreed any subsequent changes.

Information in respect of material transactions with related parties, not disclosed in another note elsewhere in this Statement of Accounts, is presented below:

| 2009/10 As restated | | | 2010/11 | |
|---|---|---|---|---|
| **Payments £'000** | **Receipts £'000** | | **Payments £'000** | **Receipts £'000** |
| 45,708 | 3,565 | North East Lincolnshire Care Trust Plus | 47,273 | 5,220 |
| 530 | 276 | Grimsby Institute of Further & Higher Education | 6,929 | 412 |
| 6,929 | 23 | e-Factor | 3,679 | 5 |
| 2,853 | 674 | Shoreline Housing Partnership | 2,240 | 875 |
| 910 | 39 | Northern Lincolnshire & Goole Hospitals NHS Foundation Trust | 973 | 23 |
| 354 | 20 | Voluntary Action North East Lincolnshire | 297 | 27 |

Note: The receipts figure for 2009/10 has been restated with the correct figure

| Debtors at 1 April 2009 £'000 | Debtors at 31 March 2010 £'000 | | Debtors at 31 March 2011 £'000 |
|---|---|---|---|
| 1,617 | 1,216 | North East Lincolnshire Care Trust Plus | 3,801 |
| 602 | 117 | Shoreline Housing Partnership | 292 |
| 61 | 93 | Grimsby Institute of Further & Higher Education | 160 |
| 3 | - | Voluntary Action North East Lincolnshire | 17 |
| - | 25 | Northern Lincolnshire & Goole Hospitals NHS Fountation Trust | 12 |

Details of additional involvements are as follows:

| **Name** | **Declaration** |
|---|---|
| Councillor P Bailey | Grimsby & Cleethorpes Citizens' Advice Bureau Management Committee |
| Councillor C Barber | Member on North East Lindsey Drainage Board; Member on the Fishermans Mission Board |
| Councillor P M Barker | Trustee West Marsh Community Centre; Chairman of West Marsh Forward; Trustee Macaulay Area Action Group; Vice Chairman Friends of the Freshney` |
| Councillor S Beasant | Lincs Building Consultancy Executive Board; Voluntary Action - North East Lincolnshire |
| Councillor D Bolton | Immingham Museum Management Committee |
| Councillor L Bonner | Trustee of Citizens Advice Bureau; Treasurer of Yarborough Tenants and Residents Authority; Member on North East Lindsey Drainage Board |
| Councillor Bramley | Grimsby and Cleethorpes Citizens Advice Bureau Management Committee; Vice Chair of Nunsthorpe Tenants and Residents Association |
| Councillor Brookes | Chairman of Kirman Trust |
| Councillor Brown | Member of North East Lindsey Drainage Board |
| Councillor P Burgess | Member Grimsby Town Centre Forum; Greater Grimsby Renaissance Partnership; Cleethorpes Renaissance Town Team, Lincs Building Consultancy Executive Board; Member of North East Lindsey Drainage Board; Humber Estuary Advisory Coastal Group |
| Councillor M Burnett | Director Cleethorpes Event Limited; Director Disability Active; Member of Tourism North East Lincolnshire; Care Trust Plus Board. |
| Councillor J Colebrook | Administrator of United Care Homes Association; Vice Chairman of North Eastern Sea Fisheries Committee; Humberside Airport Consultative Committee Member |
| Councillor P Colebrook | Director/Manager Farringford Care Ltd, Care Trust Plus |
| Councillor I Colquhoun | Waltham Windmill Trust; member of North east Lindsey Drainage Board, Tourism |

| | |
|---|---|
| | North East Lincolnshire. |
| Councillor M Cracknell | Waltham Windmill Trust; VANEL |
| Councillor A Darby | Trustee of Shalom Church; Non Executive Member of Contract Lincs Community Interest Company |
| Councillor A De Freitas | Friends of the Park Treasurer |
| Councillor J Fenty | Grimsby Town Football Club Chairman |
| Councillor S Hocknell | North East Lincolnshire Care Trust Plus; Grimsby Institute of Further & Higher Education; Northern Lincolnshire & Goole Hospitals NHS Foundation Trust |
| Councillor D Hornby | Grimsby & Cleethorpes Citizens' Advice Bureau Management Committee; Environment Agency; Member on Lindsey Marsh Drainage Board |
| Councillor J Howarth | Trustee Shalom Youth Centre; Trustee of Harbour Place; Trustee of East Marsh Community Trust. |
| Councillor P Jackson | Non-executive Director Northern Lincolnshire & Goole Hospitals NHS Foundation Trust; Waltham Windmill Trust; Grimsby Institute of Further & Higher Education Independent member Audit Committee |
| Councillor R James | Grimsby & Cleethorpes Citizens' Advice Bureau Management Committee; Care Trust Plus Board |
| Councillor N Lincoln | Board Member, Shoreline Housing Partnership |
| Councillor G Lowis | e-Factor Enterprise (NEL) Ltd; Cleethorpes Renaissance Town Team, Member Grimsby Town Centre Forum; Greater Grimsby Renaissance Partnership; Humberside Airport Consultative Committee |
| Councillor T McCabe | Trustee of East Marsh Community Development Trust |
| Councillor P Mills | Non Executive Director North East Lincolnshire Care Trust Plus; Waltham Windmill Trust; Member on North East Lindsey Drainage Board |
| Councillor S Norton | Chief Executive Grimsby Fish Merchants Association Ltd; Director of Grimsby Fish Dock Enterprises |
| Councillor T Oliver | North East Lindsey Drainage Board |
| Councillor B Parkinson | Lindsey Marsh Drainage Board Committee |
| Councillor L Pidgen | Director Cleethorpes Events Ltd; Edinburgh Award Advisory Group and North Eastern Sea Fisheries Committee |
| Councillor C Shaw | Managing Director Cleethorpes Coast Light Railway Ltd; Tourism North East Lincolnshire, Cleethorpes Events Ltd, Miniature Railway Museum Trust, Sidney Sussex Community Group Director, Meridian Ltd, Spouse is Director of Meridian Ltd and Brief Encounters Ltd |
| Councillor S Swinburn | Immingham Museum Management Committee |
| E Jones, Deputy Chief Executive | Partner is Principle Adviser to Local Government Improvement and Development |

Details of all transactions are recorded in the Register of Members' Interests which is open to public inspection. Additionally, details of Members' representation on outside bodies are considered by full Council in May each year at the Annual General Meeting. Details are available on the Council's internet at:
http://www.nelincs.gov.uk/committees/siteportalpage.aspx?siteid=1&archives=0&committeeid=15&meetingid=1507

## 15. External Audit Costs

In 2010/11 North East Lincolnshire Council incurred the following fees relating to external audit and inspection:

| **2009/10 £'000** | | **2010/11 £'000** |
|---|---|---|
| 312 | Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor | 283 |
| 52 | Fees payable to the Audit Commission in respect of statutory inspection | 17 |
| 52 | Fees payable to the Audit Commission for the certification of grant claims and returns | 54 |
| 18 | Fees payable in respect of other services provided by the appointed auditor | - |
| **434** | **Total** | **354** |

The fees for other services payable in 2009/10 related to specialist advice for a review of Strategic Housing Services.

## 16. Movement on Intangible Assets

Intangible assets include computer software licences etc which are capitalised at cost and are not revalued. Generally, these assets have an estimated useful life of five years. The movement of intangible asset balances during the year is as follows:

| 2009/10 Restated £'000 | | 2010/11 £'000 |
|---|---|---|
| 2,418 | Opening Gross Carrying Amount | 2,505 |
| (1,209) | Accumulated Depreciation and Impairment | (1,660) |
| **1,209** | **Balance at 1 April** | **845** |
| 87 | Additions | 82 |
| (451) | Depreciation | (470) |
| **845** | **Net Carrying Amount at 31 March** | **457** |
| **Comprising:** | | |
| 2,505 | Gross Carrying Amount | 2,587 |
| (1,660) | Accumulated Depreciation and Impairment | (2,130) |
| **845** | | **457** |

## 17. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| (2,941) | Rental income from investment property | (2,755) |
| 1,215 | Direct operating expenses arising from investment property | 579 |
| **(1,726)** | **Total** | **(2,176)** |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

| 2009/10 As Restated £'000 | | 2010/11 £'000 |
|---|---|---|
| **55,434** | **Balance at 31 March 2009** | |
| **(12,105)** | **IFRS Restatement Adjustments** | |
| **43,329** | **Balance at 1 April 2010** | **43,290** |
| | Additions: | |
| - | - purchases | - |
| - | - construction | - |
| - | - subsequent expenditure | 138 |
| (955) | Disposals | (1,442) |
| 916 | Net gains or losses from fair value adjustments | (96) |
| - | Transfers (to)/from Property, Plant and Equipment | 39 |
| **43,290** | **Balance at 31 March 2011** | **41,929** |

## 18. Property, Plant and Equipment

The tables below summarise the movements in year and for the comparative year:

**Movements in 2010/11:**

| | Other Land and Buildings | Vehicles, Plant & Equipment | Infrastructure | Community Assets | Assets Under Construction | Assets Held for Sale | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | |
| **At 1 April 2010** | **353,461** | **10,873** | **76,486** | **14,624** | **19,324** | **0** | **474,768** |
| Additions | 10,201 | 757 | 5,428 | 594 | 24,852 | 0 | **41,832** |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Revaluation increases/decreases: | | | | | | | |
| - recognised in the Revaluation Reserve | 14,262 | 0 | 0 | 0 | 0 | 0 | **14,262** |
| - recognised in Surplus/Deficit on Provision of Services | (32,212) | 0 | 0 | 0 | 0 | 0 | **(32,212)** |
| Derecognition: | | | | | | | |
| - disposals | (25,844) | 0 | 3 | (36) | 0 | 0 | **(25,877)** |
| - other | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications:: | | | | | | | |
| - Assets Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| - other | 3,200 | 0 | 246 | (78) | (3,446) | 0 | **(78)** |
| Other service expenses | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Other movements in cost or valuation | (27,009) | 0 | 0 | 0 | 0 | 0 | **(27,009)** |
| **At 31 March 2011** | **296,059** | **11,630** | **82,163** | **15,104** | **40,730** | **0** | **445,686** |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| **At 1 April 2010** | **55,291** | **5,747** | **14,472** | **39** | **0** | **0** | **75,549** |
| Depreciation: | | | | | | | |
| - charge in year | 17,572 | 1,673 | 1,905 | 0 | 16,550 | 0 | **37,700** |
| - written out to Revaluation Reserve | (5,804) | 0 | 0 | 0 | 0 | 0 | **(5,804)** |
| - written out to Surplus/Deficit on Provision of Services | (4,186) | 0 | 0 | 0 | 0 | 0 | **(4,186)** |
| Impairment losses/(reversals): | | | | | | | |
| - recognised in Revaluation Reserve | 25,267 | 0 | 0 | 0 | 0 | 0 | **25,267** |
| - recognised in Surplus/Deficit on Provision of Services | (4,749) | 0 | 0 | 0 | 0 | 0 | **(4,749)** |
| Derecognition: | | | | | | | |
| - disposals | (2,403) | 0 | 0 | 0 | 0 | 0 | **(2,403)** |
| - other | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications: | | | | | | | |
| - Assets Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| - other | (79) | 0 | 79 | (39) | 0 | 0 | **(39)** |
| Other movements in depreciation and impairment | (27,009) | 0 | 0 | 0 | 0 | 0 | **(27,009)** |
| **At 31 March 2011** | **53,900** | **7,420** | **16,456** | **0** | **16,550** | **0** | **94,326** |
| **Net Book Value** | | | | | | | |
| **At 1 April 2010** | **298,170** | **5,126** | **62,014** | **14,585** | **19,324** | **0** | **399,219** |
| **At 31 March 2011** | **242,159** | **4,210** | **65,707** | **15,104** | **24,180** | **0** | **351,360** |

The closing net book values reflect the fact that ownership of foundation, voluntary aided and voluntary controlled schools have been transferred to the governing bodies of those individual schools. During 2010/11, Hereford and Humberston Secondary Schools obtained foundation status and these were therefore removed from the Council's balance sheet, accounted for as disposals with nil proceeds.

**Movements in 2009/10:**

| As Restated | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure £'000 | Community Assets £'000 | Assets Under Construction £'000 | Surplus Assets £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | |
| **At 31 March 2009** | 269,934 | 9,987 | 70,343 | 14,410 | 1,455 | 2,249 | 368,378 |
| **IFRS Restatement Adjustments** | 61,955 | 0 | 0 | 0 | 0 | (2,249) | 59,706 |
| **At 1 April 2009** | **331,889** | **9,987** | **70,343** | **14,410** | **1,455** | **0** | **428,084** |
| Additions | 12,793 | 1,030 | 6,416 | 745 | 18,411 | 0 | **39,395** |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Revaluation increases/decreases: | | | | | | | |
| - recognised in the Revaluation Reserve | 7,153 | 0 | 0 | 0 | 0 | 0 | **7,153** |
| - recognised in Surplus/Deficit on Provision of Services | 157 | 0 | 0 | 0 | 0 | 0 | **157** |
| Derecognition: | | | | | | | |
| - disposals | (544) | (144) | 0 | (323) | 0 | 0 | **(1,011)** |
| - other | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications: | | | | | | | |
| - Assets Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| - other | 2,013 | 0 | (273) | (208) | (542) | 0 | **990** |
| Other service expenses | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Other movements in cost or valuation | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2010** | **353,461** | **10,873** | **76,486** | **14,624** | **19,324** | **0** | **474,768** |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| **At 31 March 2009** | 30,436 | 4,337 | 12,815 | 0 | 0 | 804 | 48,392 |
| **IFRS Restatement Adjustments** | (2,709) | 0 | 0 | 0 | 0 | (804) | (3,513) |
| **At 1 April 2009** | **27,727** | **4,337** | **12,815** | **0** | **0** | **0** | **44,879** |
| Depreciation: | | | | | | | |
| - charge in year | 17,341 | 1,522 | 1,739 | 0 | 0 | 0 | **20,602** |
| - written out to Revaluation Reserve | (3,439) | 0 | 0 | 0 | 0 | 0 | **(3,439)** |
| - written out to Surplus/Deficit on Provision of Services | (203) | 0 | 0 | 0 | 0 | 0 | **(203)** |
| Impairment losses/(reversals): | | | | | | | |
| - recognised in Revaluation Reserve | 6,738 | 0 | 0 | 0 | 0 | 0 | **6,738** |
| - recognised in Surplus/Deficit on Provision of Services | 6,121 | 0 | 0 | 39 | 0 | 0 | **6,160** |
| Derecognition: | | | | | | | |
| - disposals | (66) | (112) | 0 | 0 | 0 | 0 | **(178)** |
| - other | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications: | | | | | | | |
| - Assets Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| - other | 1,072 | 0 | (82) | 0 | 0 | 0 | **990** |
| Other movements in depreciation and impairment | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2010** | **55,291** | **5,747** | **14,472** | **39** | **0** | **0** | **75,549** |
| **Net Book Value** | | | | | | | |
| **At 31 March 2009** | **239,498** | **5,650** | **57,528** | **14,410** | **1,455** | **1,445** | **319,986** |
| **At 1 April 2009** | **304,162** | **5,650** | **57,528** | **14,410** | **1,455** | **0** | **383,205** |
| **At 31 March 2010** | **298,170** | **5,126** | **62,014** | **14,585** | **19,324** | **0** | **399,219** |

## 19. Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the authority in the 2011/12 financial statements.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case, heritage assets.

As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. However, the Authority is required to make disclosure of the estimated effect of the new standard in these (2010/11) financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Authority's Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. The heritage assets held by the authority are the collections of assets and artefacts that are either exhibited or stored by the Museum Service, civic regalia, public library and archive material and also includes the deep sea trawler Ross Tiger.

The collections have been valued by professional valuers between 1989 and 2008, with the Ross Tiger being separately valued for insurance purposes.

None of these assets, with overall valuations of approximately £0.8m, are currently recorded on the Council's balance sheet.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). The 2011/12 Code will permit some relaxations in the valuation requirements of heritage assets and this will mean that the authority is able to recognise more of its collections of heritage assets in the Balance Sheet.

The Authority anticipates that it will be able to recognise its ceramics, ship models and paintings as well as the deep sea trawler on the Balance Sheet using as its base the valuations identified above.

The Authority is unlikely to obtain updated valuations as it is of the view that obtaining valuations would involve a disproportionate cost of obtaining the information in comparison to the benefits to the users of the Authority's financial statements – this exemption is permitted by the 2011/12 Code.

As these assets have not yet been recognised in the Balance Sheet this will require a recognition of assets of £0.8m with a matching increase in the Revaluation Reserve, i.e. a revaluation gain.

The Authority considers that the heritage assets held by the Authority will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the authority's heritage assets.

## 20. Impairment Losses

The Code of Practice requires disclosure by class of assets of the amounts of impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. The overall movements are disclosed in the Property, Plant and Equipment note to the accounts.

Generally, the requirement to separately account for components for the first time in 2010/11 has resulted in increases in impairment losses. Previously, an increase in the land value and a reduction in building value of an asset would have been netted off for the calculation of impairment. These would now have to be separately assessed as a gain and an impairment loss, making the impairment loss charged to services much higher.

During 2010/11, the Authority has recognised net impairment losses of £7.1m against its schools. One of the main reasons for this is that, in addition to the issue mentioned above, the Code also now requires that valuers should adopt the instant build approach when producing depreciated replacement cost valuations, such as those used for schools. The instant build approach means that finance costs are excluded from the valuations and this has reduced values accordingly.

Within the impairment loss for schools there is also an impairment loss of £3.2m for Havelock School. The useful life for the existing school has fallen significantly in readiness for a new school on the site that is due to be completed during 2011/12. The new building is separately recorded as an Asset Under Construction on a historic cost basis.

The impairment losses for schools have been charged to the Education and Children's Services line in the Comprehensive Income and Expenditure Statement.

There has also been an impairment of £2.9m recognised against the Bradley Football Development Centre. Up until completion this was recorded on a historic cost basis. This is now valued on an existing use value basis and, as a direct result, the value has fallen significantly. This impairment loss has been charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement.

## 21. Information on Assets Held

Included amongst the assets owned by the Council are the following:

| As at 1 April 2009 | As at 31 March 2010 | | As at 31 March 2011 |
|---|---|---|---|
| 24 | 24 | Administrative Offices | 24 |
| 11 | 11 | Allotments | 11 |
| 34 | 35 | Car Parks | 35 |
| 3 | 3 | Cemeteries and Crematoria | 3 |
| 13 | 15 | Children's Centres | 15 |
| 3 | 3 | Community Learning Centres | 3 |
| 10 | 8 | Dwellings (e.g. caretakers accommodation) | 7 |
| 5 | 5 | Day Centres | 5 |
| 4 | 4 | Depots (including leased out) | 4 |
| 9 | 9 | Enterprise Centres | 9 |
| 8 | 8 | Libraries | 8 |
| 2 | 2 | Museums and Galleries | 2 |
| 39 | 39 | Parks and Open Spaces | 39 |
| 16 | 16 | Play Areas | 22 |
| 15 | 12 | Public Conveniences | 12 |
| 6 | 5 | Residential Homes | 5 |
| 3 | 2 | Resource Centres | 2 |
| 52 | 50 | Schools | 47 |
| 6 | 6 | Sports Centres and Swimming Pools (leased out) | 7 |
| 4 | 4 | Supported Housing | 4 |
| 13 | 12 | Youth and Community Centres (including leased out assets) | 12 |

The above numbers do not include Foundation, Voluntary Aided, Voluntary Controlled or Academy Schools, which for 2010/11 means that Hereford and Humberston Schools are no longer included as they have now obtained foundation status. The Havelock and Tollbar Edge Cleethorpes Academy schools are on short-term leases and are included pending their transfer to long-term leases at a later date.

## 22. Valuation Information

Where an asset is included in the Balance Sheet at current value, it is formally revalued at intervals of not more than five years. The following statement shows the progress of the Council's rolling programme for the revaluation of assets:

| | Other Land & Buildings £'000 | Investment Properties £'000 | Total £'000 |
|---|---|---|---|
| Valued at Current Value in: | | | |
| 2010/11 | 179,451 | 32,222 | 211,673 |
| 2009/10 | 51,423 | 1,108 | 52,531 |
| 2008/09 | 5,339 | 3,572 | 8,911 |
| 2007/08 | 2,151 | 4,384 | 6,535 |
| 2006/07 | 3,795 | 641 | 4,436 |
| **Total** | **242,159** | **41,927** | **284,086** |

The basis for valuation is set out in the Statement of Accounting Policies. All valuations during the year have been undertaken or supervised by qualified members of the Royal Institution of Chartered Surveyors (RICS). The valuations have been undertaken by the Estates and Valuation Section of Balfour Beatty Workplace, external valuers, under the direction of:

Mr Nick Booth, MRICS, Head of Asset Management, Balfour Beatty Workplace and
Mr Paul Durrant, (Hons) Dip Surv MRICS, Principal Surveyor, Balfour Beatty Workplace

## 23. Assets Held Under Leases

**Vehicles, Plant, Furniture and Equipment** - the Council has previously used winter maintenance, refuse and other vehicles together with miscellaneous equipment financed under terms of an operating lease. Although the Council's current policy is to purchase outright, commitments exist under former leases. The amount paid under these arrangements in 2010/11 was £0.077m (£0.187m in 2009/10). These figures include payments in respect of vehicles now used under sub licence by Shoreline Housing Partnership and NELCTP.

**Land and Buildings** – the Council leases a number of buildings, mainly for office accommodation, that are accounted for as operating leases. The rentals payable in 2010/11 were £0.793m (£0.855m in 2009/10).

The future minimum lease payments due under non cancellable leases in future years are:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| | Lease receipts payable: | |
| 730 | - within one year | 749 |
| 2,128 | - later than one year and not later than five years | 2,190 |
| 2,303 | - later than five years | 1,176 |
| **5,161** | | **4,115** |

The expenditure charged to Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 730 | Minimum lease payments | 724 |
| (130) | Sublease payments receivable | (332) |
| **600** | | **392** |

The Council has minimal outstanding finance leases. All primary rental periods for those assets have concluded.

## 24. Assets Held for Leases

The Council has granted a lease in respect of land at Anthony's Bank Road, Humberston for a period of 99 years commencing from January 1992. The rent charged in 2010/11 was £0.445m (£0.445m in 2009/10).

The future minimum lease payments receivable under non-cancellable leases in future years are:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| | Lease receipts due: | |
| (2,449) | - within one year | (2,526) |
| (7,402) | - later than one year and not later than five years | (7,562) |
| (99,578) | - later than five years | (99,311) |
| **(109,429)** | | **(109,399)** |

## 25. Long-term Debtors

These are sums outstanding which will be repaid over a period of years. Long-term debtors are analysed in the following table:

| As at 1 April 2009 £'000 | As at 31 March 2010 £'000 | | As at 31 March 2011 £'000 |
|---|---|---|---|
| 440 | 1,261 | Local Enterprise Growth Initiative Loans | 1,048 |
| 191 | 282 | Car Loans to Staff | 170 |
| 23 | 19 | Housing Mortgages | 15 |
| **654** | **1,562** | | **1,233** |

## 26. Inventories

Movement on inventory balances was as follows:

| | Consumable Stores | | Items for Resale | | Maintenance Materials | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2009/10 £'000 | 2010/11 £'000 | 2009/10 £'000 | 2010/11 £'000 | 2009/10 £'000 | 2010/11 £'000 | 2009/10 £'000 | 2010/11 £'000 |
| **Balance at 1 April** | **99** | **256** | **38** | **21** | **30** | **37** | **167** | **314** |
| Purchases | 1,046 | 933 | 118 | 97 | 76 | 134 | 1,240 | 1,164 |
| Recognised as an expense in year | (889) | (1,040) | (135) | (93) | (69) | (121) | (1,093) | (1,254) |
| Written off balances | - | (15) | - | (5) | - | - | - | (20) |
| **Balance at 31 March** | **256** | **134** | **21** | **20** | **37** | **50** | **314** | **204** |

## 27. Debtors

The debtors and allowance made for bad and doubtful debts can be further analysed as follows:

| As at 1 April 2009 Restated £'000 | As at 31 March 2010 Restated £'000 | Debtor | As at 31 March 2011 £'000 |
|---|---|---|---|
| 8,578 | 19,062 | Central Government Bodies | 9,747 |
| 337 | 308 | Other Local Authorities | 352 |
| 0 | 0 | NHS Bodies | 3,191 |
| 10,764 | 10,283 | Other Entities and Individuals | 13,463 |
| **19,679** | **29,653** | | **26,753** |
| | | **Above includes allowance for bad and doubtful debts of:** | |
| (2,148) | (2,150) | Council Tax Impairment Allowance (NELC share) | (2,165) |
| (3,493) | (3,624) | General Fund | (3,698) |
| **(5,641)** | **(5,774)** | | **(5,863)** |

**North East Lincolnshire Care Trust Plus** – within the above NHS bodies total is a debtor amount of £2.942m for Care Trust Plus. The Council makes an annual contribution towards pension liabilities for the past service of staff that transferred to Care Trust Plus. As a result of the latest actuary review the current estimate for these past service costs has fallen. The Council has recognised this surplus of £2.942m as income within past service costs through the recognition of a debtor. This surplus has been set aside in an earmarked reserve to cover future likely

fluctuations of these liabilities (see note 35).

## 28. Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | Long term | | | Current | | |
|---|---|---|---|---|---|---|
| | 1 April 2009 £'000 | 31 March 2010 £'000 | 31 March 2011 £'000 | 1 April 2009 £'000 | 31 March 2010 £'000 | 31 March 2011 £'000 |
| Financial Liabilities at Amortised Cost | 90,476 | 89,324 | 89,096 | 1,592 | 1,334 | 299 |
| Trade Payables | - | - | - | 14,415 | 12,903 | 21,019 |
| **Total Borrowings** | **90,476** | **89,324** | **89,096** | **16,007** | **14,237** | **21,318** |
| Loans and Receivables | 5,298 | 36 | 36 | 59,123 | 49,939 | 54,388 |
| Trade Receivables | - | - | - | 6,214 | 4,931 | 6,908 |
| **Total Investments** | **5,298** | **36** | **36** | **65,337** | **54,870** | **61,296** |

## 29. Financial Instruments – Nature and Extent of Risks

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another.

The Council's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity Risk – the possibility that the Council might not have the funds available to meet its commitments to make payments
- Market Risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management philosophy recognises that it is a feature of successful organisations that they progress through innovation and the willingness to change. The Council looks to engender a corporate readiness to take risks but to ensure that such risks are only taken when justified and with a detailed knowledge and understanding of their possible impact upon the Council, its reputation, its assets, its stakeholders and the community. There are defined arrangements for risk management through Directorate Risk Action Groups (DRAG's) with membership across the directorate and including a Directorate Risk Champion. A Risk Register is in place and appropriate members and officers have been trained in the assessment, management and monitoring of risks.

In respect of the risks associated with financial instruments, the Council's control environment is strengthened by the Council having adopted the CIPFA Code of Practice on Treasury Management (the Code) under which it produces an annual Treasury Management Strategy. The Code makes key recommendations concerning the formalisation of treasury management objectives, policies and practices, in particular the adoption of a Treasury Management Policy Statement and Treasury Management Practices, reporting arrangements and delegation of responsibilities. It stresses that:

"…the effective management and control of risk are prime objectives of …treasury management activities."

**Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The Council manages credit risk by ensuring that investments are placed with the Debt Management Office, other local authorities, AAA-rated money market funds or Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy.

A limit of 15% is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit (20%) in institutions that are part of the same banking group. The Council did not allow sums to be invested for a period longer than one year. The Council has no historical experience of

counterparty default other than Icelandic Banks.

It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2010/11, approved by Full Council on 18/02/2010.

Throughout 2010/11 the minimum criteria for new investments has been a long term rating of A+/A1/A+ (Fitch/Moody's/S&P) and a short term rating of F1/P-1/A-1 (Fitch/Moody's/S&P).

The table below summarises the nominal value of the Council's investment portfolio at 31st March 2011, and confirms that all investments were made in line with the Council's approved credit rating criteria:

| Counterparty | Credit Rating Criteria met When Investment Placed | Credit Rating Criteria Met on 31/3/11 | Balance Invested as at 31/3/11 | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | Yes / No | Yes / No | Up to 1 Month | 1-3 Months | 3-6 Months | 6-9 Months | 9-12 Months | Total |
| | | | £000's | £000's | £000's | £000's | £000's | £000's |
| Banks UK | Yes | Yes | 10,000 | 7,000 | 3,000 | 0 | 0 | 20,000 |
| Building Societies | Yes | Yes | 0 | 0 | 0 | 3,000 | 3,000 | 6,000 |
| Money Market Funds | Yes | Yes | 20,070 | 0 | 0 | 0 | 0 | 20,070 |
| Other Local Authorities | N/A | N/A | 2,000 | 0 | 0 | 0 | 0 | 2,000 |
| Call Accounts | Yes | Yes | 3,719 | 0 | 0 | 0 | 0 | 3,719 |

The above analysis shows that all deposits outstanding as at 31 March 2011 met the Council's credit rating criteria on the 31 March 2011. The analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investments, which is disclosed as a separate note for exceptional items. Also, within the above table, the overall Call Account balance at 31 March 2011 was £3.719m. However, included within this figure is £0.719m relating to the balance on 31 March 2011 within a Special Interest Bearing Account (SIBA), earning interest on daily cash flow surpluses. This value is included within cash balances on the face of the balance sheet.

With regard to customers, provision is made for potential non collection based on an analysis of aged debt, type of debtor and recent experience. The following table shows an analysis of debt beyond 30 days old which has not been impaired at this time, as there is no objective evidence to suggest that they will not be collected:

| **As at 31 March 2010 £'000** | | **As at 31 March 2011 £'000** |
|---|---|---|
| 2,394 | One to Three Months | 737 |
| 182 | Three to Six Months | 86 |
| 147 | Six Months to One Year | 45 |
| 144 | More than One Year | 58 |
| **2,867** | | **926** |

**Liquidity Risk**

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. However, there is a risk that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The short-term strategy is to ensure that not more than 20% of loans are due to mature within any 12 month period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. As the total debt increases the strategy is to consistently reduce the level of debt

falling due in any 12 month period.

The maturity analysis of financial liabilities is as follows:

| 1 April 2009 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| 16,656 | 14,958 | Maturity in Less than 1 year (including trade payables) | 21,242 |
| 1,224 | 223 | Maturity in 1 to 2 years | 200 |
| 638 | 627 | Maturity in 2 to 5 years | 623 |
| 919 | 854 | Maturity in 5 to 10 years | 774 |
| 524 | 439 | Maturity in 10 to 15 years | 1,385 |
| 86,522 | 86,460 | Over 15 years | 85,398 |
| **106,483** | **103,561** | | **109,622** |

All trade and other liabilities are due to be paid in less than one year.

**Market Risk**

**Interest Rate Risk**

The Council is exposed to limited risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- Borrowing at fixed rates – the fair value of the liabilities from borrowings will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so normal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Account Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected within Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of £30m of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, the Council will consider repaying fixed rate loans early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation in future years for a proportion of any higher costs.

The banking crisis and general economic environment has resulted in a significant fall in interest received on deposits. The impact on the Council's revenue budget has been marked but has been addressed through prudent financial management.

The Council has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget monthly during the year. This allows adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Based on the treasury position at 31 March 2011 interest rate exposure can be summarised as follows:

| | £'000 |
|---|---|
| In respect of short term debt - the annual cost of an interest rate 1% higher than that actually payable | 1 |
| In respect of investments with a maturity of less than 12 months (i.e. investments maturing before 31 March 2012) an interest rate 1% higher than actually receivable would generate additional income of | (518) |
| | **(517)** |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**Price Risk**

The Council does not generally invest in equity shares.

**Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currency and thus it has no exposure to loss arising from movements in exchange rates.

**Fair Value of Assets and Liabilities Carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- for loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures
- for loans receivable, prevailing benchmark market rates have been used to provide the fair value
- no early repayment or impairment is recognised
- where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

| | **1 April 2009** | | **31 March 2010** | | **31 March 2011** | |
|---|---|---|---|---|---|---|
| | **Carrying Amount £'000** | **Fair Value £'000** | **Carrying Amount £'000** | **Fair Value £'000** | **Carrying Amount £'000** | **Fair Value £'000** |
| PWLB Debt | 49,047 | 51,468 | 48,827 | 49,357 | 47,685 | 49,655 |
| Non PWLB Debt | 41,649 | 43,767 | 41,645 | 42,465 | 41,649 | 44,279 |
| Temporary Borrowing | 1,592 | 1,592 | 101 | 101 | 61 | 61 |
| Bank Overdraft | 1,922 | 1,922 | 2,454 | 2,454 | 4,734 | 4,734 |
| Trade Payables | 14,415 | 14,415 | 12,903 | 12,903 | 21,019 | 21,019 |
| **Total Debt** | **108,625** | **113,164** | **105,930** | **107,280** | **115,148** | **119,748** |

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for loans with a similar maturity in the market at the Balance Sheet date.

| | 1 April 2009 Carrying Amount £'000 | 1 April 2009 Fair Value £'000 | 31 March 2010 Carrying Amount £'000 | 31 March 2010 Fair Value £'000 | 31 March 2011 Carrying Amount £'000 | 31 March 2011 Fair Value £'000 |
|---|---|---|---|---|---|---|
| Money Market Loans Less than 1 year | 4,118 | 4,118 | 18,181 | 18,181 | 34,308 | 34,308 |
| Money Market Loans Greater than 1 year | 5,298 | 5,701 | 36 | 19 | 36 | 19 |
| Money Market Funds | - | - | 7,603 | 7,603 | 20,080 | 20,080 |
| Debt Management Office | 55,005 | 55,005 | 24,156 | 24,156 | - | - |
| Cash and Bank | 2,819 | 2,819 | 2,178 | 2,178 | 1,387 | 1,387 |
| Trade Receivables | 6,214 | 6,214 | 4,931 | 4,931 | 6,908 | 6,908 |
| | **73,454** | **73,857** | **57,085** | **57,068** | **62,719** | **62,702** |

The differences are attributable to fixed interest instruments payable being held by the Council whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for financial liabilities has been determined by reference to the Public Works Loan Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for the non PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.

The fair values for loans and receivables have been determined by reference to the PWLB redemption rules which provide a good approximation for the fair value of a financial instrument, and include accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

## 30. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following:

| As at 1 April 2009 £'000 | As at 31 March 2010 £'000 | | As at 31 March 2011 £'000 | As at 31 March 2011 £'000 |
|---|---|---|---|---|
| 55,005 | 24,156 | Debt Management Office Short-term Deposits | 0 | |
| 0 | 9,627 | Banks and Building Societies Short-term Deposits | 22,091 | |
| 0 | 7,603 | Money Market Funds | 20,080 | |
| 2,819 | 2,178 | Cash and Bank Current Accounts | 1,387 | |
| 57,824 | 43,564 | **Cash and Cash Equivalents - Current Asset** | | 43,558 |
| (1,922) | (2,454) | **Cash and Cash Equivalents - Bank Overdraft** | | (4,734) |
| **55,902** | **41,110** | **Total** | | **38,824** |

Note: the above includes current assets cash and cash equivalents and the current liability bank overdraft

## 31. Creditors

| As at 1 April 2009 Restated £'000 | As at 31 March 2010 Restated £'000 | | As at 31 March 2011 £'000 |
|---|---|---|---|
| (7,958) | (8,906) | Central Government Bodies | (9,673) |
| 0 | (2) | Other Local Authorities | (2,568) |
| (2,634) | (4) | NHS Bodies | (4,080) |
| (20,308) | (22,306) | Other Entities and Individuals | (15,212) |
| **(30,900)** | **(31,218)** | | **(31,533)** |

## 32. Provisions

Details of the Provisions set aside are as follows:

| Period | Self Insurance | Salvation Army | Mental Health Act 1983 S117 | SULO | Health Premise | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2009** | **5,947** | **-** | **257** | **-** | **-** | **90** | **6,294** |
| Additional provisions made in year | 146 | 428 | - | 251 | 230 | - | **1,055** |
| Amounts used in year | - | - | - | - | - | (55) | **(55)** |
| **Balance at 31 March 2010** | **6,093** | **428** | **257** | **251** | **230** | **35** | **7,294** |
| **Estimated to be settled:** | | | | | | | |
| Within one year | 168 | 428 | - | 251 | 230 | - | 1,077 |
| Beyond one year | 5,925 | - | 257 | - | - | 35 | 6,217 |
| **Balance at 31 March 2010** | **6,093** | **428** | **257** | **251** | **230** | **35** | **7,294** |
| **Balance at 1 April 2010** | **6,093** | **428** | **257** | **251** | **230** | **35** | **7,294** |
| Additional provisions made in year | 3,762 | - | - | - | - | 66 | **3,828** |
| Amounts used in year | (3,684) | (428) | - | (251) | - | (4) | **(4,367)** |
| Unused amounts reversed in year | - | - | - | - | - | - | **-** |
| **Balance at 31 March 2011** | **6,171** | **-** | **257** | **-** | **230** | **97** | **6,755** |
| **Estimated to be settled:** | | | | | | | |
| Within one year | 1,679 | - | - | - | - | 66 | 1,745 |
| Beyond one year | 4,492 | - | 257 | - | 230 | 31 | 5,010 |
| **Balance at 31 March 2011** | **6,171** | **-** | **257** | **-** | **230** | **97** | **6,755** |

The purposes for the main provisions held at 31 March 2011 are as follows:

**Self Insurance -** to obtain insurance in the most cost effective manner, the Council has chosen to carry excesses in respect of claims under various insurance policies covering property, public liability and employer's liability, subject to an annual review of the appropriate level at which any 'stop-loss' arrangements apply. The amount set aside to cover the uninsured risks at 31 March 2011 is based on the assessed liability in respect of known claims at that date.

**Mental Health Act 1983 Section 117 -** the courts have ruled that certain payments made under Section 117 of the Mental Health Act 1983 are illegal and should be returned to the payees concerned. The amount set aside reflects the Council's assessment of the cost of meeting its legal obligations.

**Health Premise Costs** - The Council received in January 2010 a recharge from Care Trust Plus for premises costs for staff located at Primary Care Centres. It is the Council's view that these are not included within the Service Level Agreement and were not recharged in the previous year. There are ongoing discussions about the basis of co-location and funding. The provision was created based on information received from the Care Trust Plus pending this issue being resolved.

**Other –** small provision held for minor equal pay claims outstanding and for utility income charges that are likely to have to be repaid.

## 33. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or pays pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has to meet them. The statutory arrangements will ensure that the funding will have been set aside by the time the benefits come to be paid.

| 2009/10 As Restated £'000 | | 2010/11 £'000 |
|---|---|---|
| **138,103** | **Balance at 1 April** | **271,660** |
| 132,259 | Actuarial gains or losses on pensions assets and liabilities | (56,213) |
| 16,916 | Charged to the Surplus or Deficit on the Provision of Services | (36,812) |
| (15,618) | Employer's pensions contributions and direct payments to pensioners payable in the year | (15,218) |
| **271,660** | **Balance at 31 March** | **163,417** |

## 34. Trust Funds

The Council administers various funds that are not included within the Council's Balance Sheet. These include the Charter Trustees for Grimsby and Cleethorpes (precepting bodies set up to preserve the historic rights and memorabilia of the former boroughs of Grimsby and Cleethorpes). There are a further 12 miscellaneous funds, the movements on which during the year were as follows:

| 2009/10 | | 2010/11 | | |
|---|---|---|---|---|
| Total £'000 | | Charter Trustees £'000 | Other Funds £'000 | Total £'000 |
| 212 | Opening Balance as at 1 April | 163 | 77 | 240 |
| (76) | Expenditure during the year | (38) | (17) | (55) |
| 104 | Income during the year | 107 | 19 | 126 |
| **240** | **Closing balance as at 31 March** | **232** | **79** | **311** |

## 35. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. Further analysis is provided below in respect of earmarked reserves and the General Fund Balance.

**Earmarked Reserves**

The Council has earmarked reserves for specific purposes which are detailed below:

| As at 1 April 2009 Restated £'000 | | As at 31 March 2010 Restated £'000 | Movement in Year £'000 | As at 31 March 2011 £'000 |
|---|---|---|---|---|
| 5,697 | Debt Financing Reserve | 5,766 | 169 | 5,935 |
| 0 | Capital Investment Reserve | 0 | 5,852 | 5,852 |
| 1,007 | Management of Change | 4,139 | 0 | 4,139 |
| 1,725 | Self Insurance | 2,105 | 905 | 3,010 |
| 0 | Adult Social Care Pension Reserve | 0 | 2,942 | 2,942 |
| 0 | Future Shape | 0 | 2,317 | 2,317 |
| 2,155 | IFRS Revenue Grant | 2,014 | 75 | 2,089 |
| 1,451 | Pensions | 1,451 | 351 | 1,802 |
| 0 | VAT Receipt | 0 | 1,757 | 1,757 |
| 443 | LPSA Reward Grant | 53 | 1,558 | 1,611 |
| 1,794 | IFRS Capital Grant | 329 | 654 | 983 |
| 1,119 | Job Evaluation | 1,119 | (319) | 800 |
| 49 | Care Trust | 0 | 675 | 675 |
| 7,000 | Icelandic Banks | 5,650 | (4,987) | 663 |
| 452 | Service Specific Reserve - Adult Social Care | 423 | (50) | 373 |
| 253 | Service Specific Reserve - Business Services | 308 | (149) | 159 |
| 74 | Service Specific Reserve - Chief Executive | 36 | (28) | 8 |
| 2,249 | Service Specific Reserve - Childrens & Family Services | 2,029 | (592) | 1,437 |
| 365 | Service Specific Reserve - Community Services | 734 | (20) | 714 |
| 3,370 | Service Specific Reserve - Deputy Chief Executive | 1,819 | (1,812) | 7 |
| 2,000 | Service Specific Reserve - Public Health | 1,436 | (810) | 626 |
| 7,837 | Service Specific Reserve - Regeneration | 14,203 | 1,194 | 15,397 |
| 6,521 | Other Earmarked Reserves | 3,396 | (2,527) | 869 |
| **45,561** | **Total** | **47,010** | **7,155** | **54,165** |

**Capital Investment Reserve -** created for future capital investment, funded from other reserves following a review of reserves balances.

**Debt Financing Reserve -** to mitigate the risks associated with treasury management activity (cash flow, interest rate volatility, debt restructuring and use of internal borrowing) and to cushion the increasing debt management costs in the Medium Term Financial Plan.

**Management of Change** - reserve in respect of the costs of managing organisational change particularly arising from the Towards Top Performance Programme.

**Self Insurance** - an assessment has been produced of the number of claims, where settlement is likely, made under the Council's self insurance policy as at 31 March 2011. This forms the basis of the provision which has been set aside (Note 32). The balance of monies held in respect of self-insurance has been credited to the above Earmarked Reserve.

**Adult Social Care Pension Reserve** - the Council makes an annual contribution towards pension liabilities for the past service of staff that transferred to Care Trust Plus. As a result of the latest actuary review the current estimate for these past service costs has fallen. As a result, the Council has recognised a surplus of £2.942m in its 2010/11 accounts, within past service costs. This has been set aside in an earmarked reserve to cover future likely fluctuations of these liabilities.

**Future Shape Reserve** - to fund future shape projects and to be drawn down as and when projects are undertaken.

**IFRS Revenue Grant Reserve** - under IFRS changes, revenue grants that do not have outstanding conditions attached at the year-end must be recognised as income immediately, even if specific plans and restrictions for spending the grant are in place. These grants are now carried forward and utilised through this earmarked reserve to ensure that it can continue to be used to match future service spending plans.

**Pensions** - reserve established for potential additional pension liabilities.

**VAT Receipt Reserve** - reserve created from reclaim of VAT and used to support capital investment.

**LPSA Reward Grant -** the reward grant has been set aside in an earmarked reserve. Funding will be released on receipt of a satisfactory business case.

**IFRS Capital Grant Reserve** - under IFRS changes, capital grants that do not have outstanding conditions attached at the year-end must be recognised as income immediately, even if specific plans and restrictions for spending the grant are in place. These grants are now carried forward and utilised through this earmarked reserve to ensure that it can continue to be used to match future capital investment plans.

**Job Evaluation Reserve** - contingency in respect of potential liabilities arising from job evaluation.

**Care Trust Reserve -** reserve established to carry forward under spend on the Partnership Agreement.

**Icelandic Banks Reserve** - reserve created to mitigate the potential non recovery of deposits with the failed Icelandic banks.

**Service Specific Reserves** - a number of service specific reserves were established in respect of a programme of projects that met a service need identified since the MTFP was approved or was planned/committed spending that was not completed during 2010/11.

## 36. General Fund Balance

The General Fund Balance is made up of two separate elements:

- **General Fund Reserve** - this fund includes any surplus after meeting net expenditure on the Council's services.
- **Individual Schools Budget Reserve** - this balance is comprised of unspent revenue balances of schools and other educational establishments at the year-end, which may be applied in the following year. The balances are not available for general use.

| As at 1 April 2009 £'000 | | As at 31 March 2010 £'000 | Movement in year £'000 | As at 31 March 2011 £'000 |
|---|---|---|---|---|
| 7,620 | General Fund Reserve | 9,245 | (446) | 8,799 |
| 2,521 | Individual Schools Budget Reserve | 2,814 | 709 | 3,523 |
| **10,141** | **General Fund Balance** | **12,059** | **263** | **12,322** |

## 37. Long-term Contracts

**Balfour Beatty Workplace**

On the 23 April 2010 the Authority entered into a 10 year Strategic Partnership with Balfour Beatty for the provision of Highways, Planning, Regeneration, Facilities Management and Strategic Housing services with services commencing on 1 July 2010.

The partnership is outcomes based which requires Balfour Beatty to achieve a series of performance targets during the contract term for which service credits can be paid back to the Authority if they are not met.

The initial value of the contract over the 10 years was £155 million of which payments of £11.6 million were made in 2010/11. Contract payments are revised annually for both inflation and efficiencies identified by the partnership, in accordance with the terms of the partnership contract.

**Newlincs**

In 2010/11 the Authority made payments of £5.8m under an annual contract with Newlincs for the provision of waste disposal and the management of Community Recycling Centres. The actual level of payment is dependent upon the level of waste delivered to the disposal sites and the level of waste incurring Landfill Tax. The contract expires in 2023/24.

**Sports Leisure Management**

In 2010/11 the Authority made payments of £1.7m under an annual contract, which commenced in September 2001, with Sports Leisure Management (SLM) for the provision of management services at the Council's leisure centres and swimming pools. This was due to expire at the end of August 2011 but an extension to the end of March 2013 has now been agreed. The annual payment is subject to an increase in line with the Retail Prices Index upon the contract anniversary each year.

## 38. Capital Expenditure and Sources of Finance

The following table indicates total capital expenditure incurred and how this was financed:

| 2009/10 Restated £'000 | | 2010/11 £'000 | 2010/11 £'000 |
|---|---|---|---|
| **105,514** | **Opening Capital Financing Requirement** | | **114,496** |
| | **Capital Investment:** | | |
| 39,395 | Property, Plant and Equipment | 41,831 | |
| 0 | Investment Property | 138 | |
| 87 | Intangible Assets | 82 | |
| 8,933 | Revenue Expenditure Funded from Capital Under Statute | 7,316 | |
| **48,415** | | | **49,367** |
| | **Sources of Finance:** | | |
| 2,718 | Capital Receipts | 700 | |
| 31,430 | Government Grants and Other Contributions | 34,653 | |
| 442 | Direct Revenue Contributions | 1,721 | |
| 4,843 | Sums Set Aside from Revenue | 5,355 | |
| **39,433** | | | **42,429** |
| **114,496** | **Closing Capital Financing Requirement** | | **121,434** |
| **Memo** | | | |
| 89,827 | Capital Financing Requirement Funded Externally | | 88,603 |
| 24,669 | Capital Financing Requirement Funded Internally | | 32,831 |
| **114,496** | | | **121,434** |
| **Explanation of movements in year:** | | | |
| 4,844 | Increase/(decrease) in Underlying Need to Borrow (supported by Government financial assistance) | | 3,853 |
| 4,138 | Increase in Underlying Need to Borrow (unsupported by Government financial assistance) | | 3,085 |
| **8,982** | **Increase/(decrease) in Capital Financing Requirement** | | **6,938** |

## 39. Commitments under Capital Contracts

At 31 March 2011 the Authority has the following major contract commitments for capital schemes:

| | 2011/12 £'000 | 2012/13 £'000 | Future Years £'000 |
|---|---|---|---|
| Havelock Academy School | 7,602 | - | - |
| Edward Heneage Primary School | 2,503 | - | - |
| Hereford School | 843 | - | - |
| East Marsh Renewal Project | 546 | 14 | - |
| **Total** | **11,494** | **14** | **-** |

## 40. Revenue Expenditure Funded from Capital Under Statute

Certain expenditure incurred by the Council, such as housing renovation grants, does not result in assets controlled by the Council. This expenditure should therefore be charged to revenue in the year in which the expenditure is incurred. However legislation allows such expenditure to be classified as capital to enable it to be funded from capital resources. The following table details the revenue expenditure funded from capital:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 2,369 | Housing Assistance/Disabled Facilities Grants | 2,593 |
| 3,196 | Local Enterprise & Growth Initiative | 1,426 |
| 1,715 | Spending on schools not owned by the Council | 2,092 |
| 1,027 | Spending on assets owned by the Care Trust Plus | 474 |
| 500 | Salvation Army Building - Places of Change | 700 |
| 126 | Spending on other assets not owned by the Council | 31 |
| **8,933** | **Total** | **7,316** |

## 41. Capital Receipts Reserve

The Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **(9)** | **Balance of Usable Receipts as at 1 April** | **-** |
| (2,511) | Add in-year receipts | (1,496) |
| 2,515 | Less utilised to finance capital expenditure | 700 |
| - | Less utilised to finance disposal costs | 14 |
| 5 | Less pooled capital receipts | 2 |
| **-** | **Balance of Usable Receipts as at 31 March** | **(780)** |

## 42. Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Whilst these gains arising from revaluations increase the net worth of the Council they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

| 2009/10 Restated £'000 | | 2010/11 £'000 | £'000 |
|---|---|---|---|
| **(104,209)** | **Balance at 1 April** | | **(105,711)** |
| (10,950) | Upward revaluation of assets | (19,938) | |
| 7,065 | Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services | 25,267 | |
| **(3,885)** | **Surplus or deficit on revaluation of non current assets not posted to the Surplus/Deficit on the Provision of Services** | | **5,329** |
| 2,081 | Difference between fair value and historical cost depreciation | 5,804 | |
| 302 | Accumulated gains on disposal of assets | 10,022 | |
| **2,383** | **Amount written off to the Capital Adjustment Account** | | **15,826** |
| **(105,711)** | **Balance at 31 March** | | **(84,556)** |

## 43. Capital Adjustment Account

The Capital Adjustment Account represents timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical basis). The Account is credited with the amounts set aside by the Council to finance these costs.

The Account also contains accumulated gains and losses on Investment Properties, gains recognised on donated assets and revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007 (the date that the Revaluation Reserve was created to hold such gains).

| 2009/10 Restated £'000 | | 2010/11 £'000 | £'000 |
|---|---|---|---|
| **(218,020)** | **Balance at 1 April** | | **(223,147)** |
| | Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| 23,223 | - charges for depreciation and impairment of non current assets | 17,965 | |
| 3,096 | - revaluation losses on Property, Plant and Equipment | 26,334 | |
| 451 | - amortisation of Intangible Fixed Assets | 470 | |
| 8,933 | - Revenue Expenditure Funded from Capital Under Statute | 7,316 | |
| 1,901 | - amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 41,466 | |
| (2,382) | Adjusting amounts written out of the Revaluation Reserve | (15,826) | |
| **35,222** | | | **77,725** |
| | Capital financing applied in the year: | | |
| (2,718) | - use of capital receipts | (700) | |
| (31,430) | - capital grants and contributions | (34,653) | |
| (4,172) | - Minimum Revenue Provision for Repayment of Debt | (4,538) | |
| (671) | - Voluntary Revenue Provision for Repayment of Debt | (817) | |
| (442) | - capital expenditure charged to the General Fund | (1,721) | |
| **(39,433)** | | | **(42,429)** |
| (916) | Movements in the market value of investments | | **96** |
| **(223,147)** | **Balance at 31 March** | | **(187,755)** |

## 44. Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for

which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **(23)** | **Balance at 1 April** | **(18)** |
| 5 | Transfer to Capital Receipts Reserve upon receipt of cash | 3 |
| **(18)** | **Balance at 31 March** | **(15)** |

## 45. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **(125)** | **Balance at 1 April** | **(923)** |
| (798) | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income collected for the year in accordance with statutory requirements | (259) |
| **(923)** | **Balance at 31 March** | **(1,182)** |

## 46. Contingent Liabilities

A contingent liability is defined as a commitment, possibly not determined, which the Council may have to face and which has not yet been accounted for. Examples include legal proceedings, damages, guarantees, claims under contract, wages, disputes etc.

Contingent liabilities include:

(i) Under the terms of the LSVT (completed March 2005), the Council is committed to the provision of certain environmental warranties in respect of Shoreline and lenders to Shoreline for a number of years. A potential liability could arise from claims made against the Council as a result of untrue or misleading information contained within those warranties. The liability, which is unlimited in certain circumstances, extends for environmental warranties until the eighteenth anniversary of the deeds and for lenders until the thirty-fifth anniversary of the deeds.

(ii) The Council, in common with most local authorities, has faced a potentially large number of claims brought under the Equal Pay Act 1970. These potential claims arise from discrepancies that might have existed between the pay given to men and women for what is claimed to be “like work” or “work of equal”. The implementation of job evaluation in April 2005 for non-school staff and most school staff in April 2007, limited the possibility of future claims. Settlements were reached and payments made in respect of approximately 1,000 potentially eligible non-school and school staff in 2007. Although there are no outstanding claims that remain to be resolved, there is a possibility that further claims could be made in respect of specific school staff.

(iii) Outstanding litigation relating to part-time employees of Humberside, Grimsby or Cleethorpes Councils who, as part-time employees, were excluded from the Pension Scheme. The cases relate to claims from individuals who may or may not have received appropriate advice regarding their pension rights when the rules of the Pension Scheme changed. We currently have a small number of claims outstanding and a maximum potential liability of £0.150m.

(iv) Macaulay Lane contaminated land – the contingent liability (as successor in title to the polluter) of in excess of £10m is offset by a settlement agreement in which P&O guarantee to cap and contain the contaminants in situ. Given the passage of time since the original settlement agreement (6 years) and the acquisition of P&O by the Dubai World Group, discussions are ongoing with P&O to further protect the Council’s position.

(v) SLM/Leisure Facilities – standard indemnities in the contract with SLM in respect of employment related issues. This was due to expire at the end of August 2011 but an extension to the end of March 2013 has now been agreed. The Council is not currently on notice of any potential claims or disputes.

(vi) Municipal Mutual Insurance (MMI) ceased trading in 1993/94. The Council may be liable to meet a proportion of claims related to its predecessor authorities. The extent of liability for future claims is uncertain. While until last year there had been a prediction of a solvent run-off for MMI, no such assurance on this is now given. In addition, a high court judgement is pending which might increase the Council's liability for claims relating to this period.

It is not possible to accurately assess the potential liability as some claims may not yet have been made. We have, however, 2 known cases that are estimated at a total of £0.250m.

(vii) Corporate cleaning contract – additional pension costs may arise for transferred employees, as provided for by the main contract. Work is ongoing with East Riding Pension Fund to ascertain whether the pension scheme assets will be able to meet outstanding liabilities.

(viii) Recent judgements with regard to Environmental Information Regulations have found that council's should have made available without charge access to unrefined data for search fees. A potential claim has been notified relating to the refund of search fee income previously paid and the Council is seeking updated advice. The estimate of fee income which could potentially be subject to a claim is £0.250m.

(ix) The Council has 2 Freedom of information cases that have been sent to the Information Commission for non disclosure of information. Should enforcement be put in place on these the Council may be liable for a fine. Whilst the maximum fine that can be levied is £0.500m it is estimated that the potential fine in each case would be no more than £0.050m. A contingent liability of £0.100m is therefore disclosed.

(x) Buildings built on the site of Immingham School in 2006 and funded by DFE Funding had been demolished to make way for the Oasis Academy. Under the terms and conditions of the grant an amount of £0.117m could be subject to clawback. Negotiations with the Oasis Academy and The Big Lottery are taking place to eliminate this risk.

## 47. Contingent Assets

Contingent assets include -

(i) As part of the agreement between the Council and Shoreline Partnership that implemented the LSVT of the Council's housing stock to Shoreline in March 2005 the Council is to receive a share of the benefits of a VAT shelter arrangement approved by HMRC. Subject to Shoreline undertaking refurbishment of the stock as set out in the agreement, then over ten years to March 2015 the Council will receive up to £10m from the VAT shelter (£6.480m received to date). The amounts that will be received and the timing of receipts is uncertain being dependent of the value of works undertaken by Shoreline in each year. The VAT shelter arrangement did not trigger any payment to the Council in 2010/11 (£1.116m in 2009/10 – this figure has been restated).

## 48. Termination Benefits

The Council terminated the contracts of a number of employees in 2010/11, incurring liabilities of £1.526m, of which £1.106m related to schools staff.

## 49. Agency Income and Expenditure

From April to July 2010 the Council was required to act as an agent in receiving and directly passing £9.730m of funding onto further educational establishments for Commissioning and Funding 14-19 Education and Training, and this covered the remainder of the 2009/10 academic year. The related income and expenditure is excluded from the Council's cost of services.

## 50. Authorisation of Accounts for Issue

The 2010/11 final accounts were authorised for issue by Neil Thornton, Chief Finance Officer on 29 June 2011.

## 51. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| (958) | Interest received | (660) |
| 4,039 | Interest paid | 4,052 |
| **3,081** | **31 March** | **3,392** |

## 52. Cash Flow Statement – Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| | **Non Cash Transactions** | |
| 25,999 | Depreciation, Amortisation, Impairment and Downward Valuations | 44,870 |
| 1,299 | Pension liability | (52,030) |
| (407) | Impairment of Icelandic Banks Investment | (372) |
| (146) | (Increase)/Decrease in Stocks and Work in Progress | 110 |
| (313) | (Increase)/Decrease in Debtors | (1,562) |
| 746 | Decrease/(Increase) in Creditors | 1,739 |
| 1,901 | Carrying amount of non current assets sold | 41,466 |
| 855 | Other Non Cash Transactions | 5,189 |
| **29,934** | | **39,410** |

## 53. Cash Flow Statement – Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| | **Investing Activities** | |
| (27,316) | Credited to Surplus or Deficit on Provision of Services | (34,951) |
| 0 | Proceeds from the Sale of Short and Long-term Investments | (6,035) |
| (2,715) | Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets | (1,479) |
| **(30,031)** | | **(42,465)** |

# COLLECTION FUND

## INCOME AND EXPENDITURE ACCOUNT

| 2009/10 As restated £'000 | | Note | 2010/11 £'000 |
|---|---|---|---|
| | **Income** | | |
| (56,425) | Council Tax | 3 | (56,686) |
| | Transfers from General Fund: | | |
| (15,077) | General Fund Council Tax Benefit | | (15,340) |
| (55,853) | Income Collectable from Business Ratepayers | | (47,977) |
| **(127,355)** | **Total Income** | | **(120,003)** |
| | **Expenditure** | | |
| 70,475 | Precepts | 4 | 71,289 |
| | Business Rates: | | |
| 55,149 | Payment to National Pool | | 47,078 |
| 243 | Costs of Collection | | 238 |
| | Bad and Doubtful Debts | | |
| (82) | Write-offs | | 825 |
| 555 | Provisions | | 177 |
| 60 | Contribution Towards Previous Years Estimated Collection Fund Surplus | 5 | 88 |
| **126,400** | **Total Expenditure** | | **119,695** |
| **(955)** | **(Surplus) / Deficit for the year** | | **(308)** |
| | **Collection Fund (Surplus)/Deficit** | | |
| (148) | Balance as at 1 April | | (1,103) |
| (955) | Movement in Year | | (308) |
| **(1,103)** | **Balance as at 31 March** | **6** | **(1,411)** |

# NOTES TO THE COLLECTION FUND

## 1 General

This Account represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to council tax and national non-domestic rates (NNDR) on behalf of those bodies (including the Council) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

## 2 National Non-Domestic Rates

Non-Domestic Rates are determined on a national basis by Central Government which sets an annual non-domestic rating multiplier amounting to 41.4p in 2010/11 (48.5p in 2009/10). The non-domestic rate multiplier for small businesses is 40.7p in 2010/11 (48.1p in 2009/10). Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. Local rateable values were £164.4m in 2010/11 (£166.1m in 2009/10).

The Council is responsible for collecting rates due from the ratepayers in its area. The amount collected, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by the Government, which in turn pays back to Councils their share of the pool, based on a standard amount per head of resident population. The amount received from the pool was £63.6m in 2010/11 (£57.0m in 2009/10).

## 3 Council Tax Base

Income from Council Tax is derived from charges raised according to the value of residential properties, which have been classified into valuation bands using estimated values as at 1 April, 1991. The tax base calculation is based upon the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts and exemptions. Individual charges are calculated by estimating the amount of income required to fund the demands on the Collection Fund and dividing this by the tax base.

The number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings is detailed below:

| | 2009/10 As restated | | | | | 2010/11 | |
|---|---|---|---|---|---|---|---|
| Number of chargeable Dwellings | Band D Equivalent Dwellings | Average Council Tax £ | Council Tax Band | (ratio to Band D) | Number of chargeable Dwellings | Band D Equivalent Dwellings | Average Council Tax £ |
| 53.50 | 29.70 | 699.08 | AR | 5/9 | 56.50 | 31.40 | 698.77 |
| 32,375.00 | 21,583.30 | 838.90 | A | 6/9 | 32,390.25 | 21,593.50 | 838.52 |
| 14,852.25 | 11,551.80 | 978.72 | B | 7/9 | 14,928.00 | 11,610.70 | 978.27 |
| 7,656.00 | 6,805.30 | 1,118.53 | C | 8/9 | 7,675.25 | 6,822.40 | 1,118.03 |
| 4,273.50 | 4,273.50 | 1,258.35 | D | 9/9 | 4,290.25 | 4,290.30 | 1,257.78 |
| 1,674.75 | 2,046.90 | 1,537.98 | E | 11/9 | 1,695.25 | 2,072.00 | 1,537.29 |
| 617.50 | 891.90 | 1,817.62 | F | 13/9 | 625.25 | 903.10 | 1,816.79 |
| 371.00 | 618.30 | 2,097.25 | G | 15/9 | 378.25 | 630.40 | 2,096.30 |
| 16.75 | 33.50 | 2,516.70 | H | 18/9 | 17.75 | 35.50 | 2,515.56 |
| 61,890.25 | 47,834.20 | | | | 62,056.75 | 47,989.30 | |
| | -794.90 | | Adjustment | | | -557.30 | |
| | 47,039.30 | | Council Tax Base | | | 47,432.00 | |

Note that the 2009/10 figures have been restated, incorrect figures being used in the previous year's disclosure.

## 4 Precepts

The following table shows all precepts on the Collection Fund:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 3,606 | Humberside Fire Authority | 3,696 |
| 7,640 | Humberside Police Authority | 7,896 |
| 59,229 | North East Lincolnshire Council | 59,697 |
| **70,475** | **Total** | **71,289** |

North East Lincolnshire Council's requirement includes parish precepts and Charter Trustees precept:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 58,652 | North East Lincolnshire Council | 59,180 |
| 540 | Parish Precepts | 485 |
| 37 | Charter Trustees | 32 |
| **59,229** | **Total** | **59,697** |

## 5 Contributions in Respect of Previous Years Surplus/(Deficit)

The following table shows the share of the prior years estimated surplus/(deficit):

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 3 | Humberside Fire Authority | 4 |
| 7 | Humberside Police Authority | 10 |
| 53 | North East Lincolnshire Council | 74 |
| **63** | **Total** | **88** |

## 6 Collection Fund Surplus

The surplus on the Collection Fund at the year-end is partly attributable to the Council and partly attributable to precepting authorities (Police and Fire). The Collection Fund surplus is therefore disaggregated in the Balance Sheet to reflect the Council's share and the preceptors' shares of the surplus. However, the preceptors' shares represent Council Tax arrears as reduced by prepayments, allowances for bad debts and preceptors' shares of the surplus.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| (57) | Current Asset - Debtors (Fire Authority share) | (73) |
| (123) | Current Asset - Debtors (Police Authority share) | (155) |
| (923) | Equity - Collection Fund Adustment Account (Council's share) | (1,183) |
| **(1,103)** | **Total** | **(1,411)** |

# ANNUAL GOVERNANCE STATEMENT - 2010/2011

## Scope of Responsibility

North East Lincolnshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to providing value for money, which is a combination of economy, efficiency and effectiveness.

The Council is responsible for putting in place proper governance arrangements which ensure it will effectively discharge its functions and manage risk.

The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Framework "Delivering Good Governance in Local Government". A copy of the code is on our website at *www.nelincs.gov.uk* or can be obtained from the Council Offices, Grimsby. This statement explains how the Council has complied with the code and meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2011, in relation to the publication of a statement on internal control.

The Council has mapped its assurance framework against the six CIPFA principles of good governance. An updated version of this document was reviewed and approved by the Audit Committee in January 2011 and by the Cabinet in March 2011. This updated version took account of the new requirement to map how the expected financial management arrangements as laid out in the CIPFA document, "*Statement on the Role of the Chief Financial Officer in Public Service Organisations"* are complied with.

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled in a manner that enables citizens and stakeholders to have confidence in the way that the Council discharges its community leadership responsibilities. It enables the Council to monitor the achievement of its strategic aims and to consider whether those aims have resulted in satisfactory outcomes for its citizens. It ensures that the Council focuses on the impact that it makes within the local community and aligns the work of the Council to the delivery of agreed outcomes.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot, however, eliminate all risk of failure to achieve aims and objectives and guarantee full compliance with policies and procedures. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. The system recognises that there is a hierarchy of risk, ranging from cross organisational risks inherent in the work of our major partnerships to everyday service delivery risks and ensures that these are considered and managed at the appropriate level via a named accountable officer. The system then evaluates the likelihood of those risks being realised, their impact if they do happen and requires actions to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the Statement of Accounts.

## The Governance Environment

The key elements of the Council's governance environment are:-

- The Sustainable Community Strategy (SCS) sets out the big picture for all activities in the area of North East Lincolnshire. This details the vision for the area up to 2022. Actions to achieve this are included as part of the Local Area Agreement which is appended to the SCS and reviewed every 3 years. The SCS includes not only what will be done but who will do it, which involves not only the Council but other agencies within the area including the police, health, third and business sectors. The Strategy shows how, working together, we will improve the area.

- In addition, the Council Plan provides a North East Lincolnshire Council focused application of the vision contained within the SCS including an overview of the Local Area Agreements and a summary of the resource implications of delivery of the Plan contained within the Council's medium term financial plan. The Plan also:

  - Is the main delivery framework for the constitution
  - formalises the Council's priorities over the forthcoming three years
  - provides the clarity to enable alignment of all of the Council's planning processes and its Local Area Agreements;
  - provides a document that gives an overview for Service Improvement Plans;
  - shows where we want to improve, plan, and deliver better outcomes for our local community;
  - helps communicate the Council's agenda to employees, partners, citizens, trade unions, regulators and other stakeholders;
  - evidences our requirement to demonstrate continuous improvement;
  - provide a high level framework for the performance management of the Council's strategic aims and priorities

- The Council has a Constitution, which sets out how the Council operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. This is updated when required and reviewed, at least, annually and reported to Council. The Constitution clearly sets out the scheme of delegation within the Council along with external partnership accountability. The Constitution also includes Contract Procedure Rules and Financial Procedure Rules and scheme of delegation which were reviewed within 2010/11. A review of the Constitution was completed in 2010/11 and subsequently reported to the Annual Meeting of the Council on the 26th May 2011.

- The Council operates the Leader/Cabinet model of executive arrangements. The Cabinet (or "the Executive") is responsible for delivering identifiable, accountable, corporate leadership for the local authority and the people it serves. The Cabinet is responsible for the setting of the strategic framework for the Council including policy setting and review and clarity over focus, aims style and culture. The facilitation of policy and decision-making is made through the Council Management Team (CMT), which meets on a weekly basis and reports to Cabinet collectively and individual portfolio holders regarding policy development and recommended Key Decisions.

- The Council has robust systems for identifying and evaluating all of the significant risks that could hinder the delivery of its aims. The Strategic Risk Management Board is chaired by the Chief Executive and comprises the CMT plus the Deputy Director for Human Resources, the Head of Internal Audit, and the Corporate Insurance and Risk Manager. There is also a Cabinet member with portfolio responsibility for risk management. The Risk Management Strategy was revised and approved by Cabinet on 6 April 2009.

- The Council has a Performance Management Framework which incorporates how it sets, intends to deliver, reviews the Council's objectives at all levels and measures the quality of services for all users. The system is driven by the Council Plan, which focuses attention on corporate priorities. This is cascaded through Directorate and Service Improvement Plans, individual employee appraisals and action plans. Cabinet monitors and scrutinises progress against targets and performance and considers and approves corrective action where necessary, quarterly. The Council ensures alignment of resources to strategic aims and best use of resources through its Service and Financial Improvement Group, Capital Investment Strategy Group, and Local Strategic Partnership Executive. Improvement remains an area of concern and action has been put in place to address this. The removal of the national performance indicators half way through the year presented a challenge locally in terms of identifying and continuing to measure what mattered most locally. Work is still required to make sense of the emerging policy picture slowly emerging at the national level and translating this in to deliverable and measurable outcomes at the local level. The Future Shape Programme recognised the importance of leadership through these changing times and a range of option papers were developed that will be implemented over the coming year to ensure that we identify, agree and enable the delivery of the things that matter most to our community.

- The Council has in place a rolling Medium Term Financial Plan for 4 years, which is annually updated and ensures that the budgets are fully integrated and aligned to the Council's strategic aims as identified within its Council Plan.

- Through reviews by external auditors, external agencies, Internal Audit, the Council's Scrutiny function, peer partners and Performance Improvement Teams the Council constantly seeks ways of ensuring and continually improving the economical, effective application of its resources to the delivery of its strategic aims.

- In 2010/11 the Council operated a system of Scrutiny which was carried out by and for Scrutiny Panels. The role of Scrutiny is to challenge and discuss and make recommendations on important policy matters and to hold the Cabinet to account for the decisions they make. From 2009, scrutiny has had additional duties to scrutinise partner agencies. The Scrutiny arrangements were subsequently reviewed at the Annual Meeting of the Council on the 26th May 2011. These arrangements were subject to Internal Audit review in 2010/11.

- The Council has a Head of Paid Service in the post of Chief Executive. The roles and responsibilities are clearly set down in the Constitution.

- The financial management of the Council is conducted in accordance with the Financial Procedure Rules set out in Part 4 of the Constitution. The Council designated the Chief Finance Officer as the officer having responsibility for the administration of the Council's financial affairs pursuant to Section 151 of the Local Government Act 1972.

- The Council has in post a designated qualified Monitoring Officer. It is his function to report on and to ensure compliance with established policies, procedures, laws and regulations. The Executive Director Business Services fulfils these responsibilities.

- The Council has a statutory Director of Children's Services. The Executive Director Children and Family Services fulfils these responsibilities.

- The Council has a statutory Scrutiny Officer. The Deputy Chief Executive is delegated this responsibility.

- The Council has lead members for Children's Services and Adult Social Services in accordance with best practice.

- Director of Adult Social Services (DASS) responsibilities are retained within the Council, notwithstanding the transfer of adult social services to the Care Trust Plus. The DASS adheres to the Department of Health national guidelines in respect of their responsibilities. The Executive Director Community Services fulfils these responsibilities.

- The Director of Public Health retains statutory responsibilities or responsibilities resulting from Direction of the Secretary of State for Health. These include Annual Public Health Report and Health Protection responsibilities. The Public Health Directorate complies with policies of both North East Lincolnshire Council and North East Lincolnshire Care Trust Plus. The Director of Public Health is a joint appointment between the partners.

The Council operates a Standards Committee in accordance with statutory requirements. The Committee has a number of roles including promoting and maintaining high standards of conduct in accordance with the Code of Conduct. The Committee is independently chaired. The Committee produced an Annual Report for 2010/11, available on the Council's website.

The Council has adopted codes of conducts for members and officers. These have been publicised by the monitoring officer.

- There are defined arrangements for risk management through Directorate Risk Action Groups (RAG's) with membership across the directorates. Each Directorate has its own designated Risk Champion. A Risk Register is in place and appropriate members and officers have been trained in the assessment, management and monitoring of risks.

- The Council maintains an Internal Audit Section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. The effectiveness of Internal Audit is subject to annual review by the Section 151 officer, whilst the Head of Internal Audit produces an Annual Report in relation to the effectiveness of the Council's control environment each June. As part of its responsibilities Internal Audit reports on the effectiveness of the governance framework, including audit's reviews of the principles are applied at a Directorate level and cyclical reviews of the key areas included in the framework.

- All decision-making reports to Cabinet, Council and the relevant Committees are assessed for their implications to staff, finances, wards, equality and diversity, legality and include a risk assessment. The Officers' Report Writing Guide includes guidance on the inclusion of risk assessments in reports and Directorate Risk Champions assess risk comments for consistency.

- There is a corporate Business Resilience Group that oversees and directs activity to ensure resilience and effective emergency planning. Emergency planning is co-ordinated with risk management and delivered through the Humber Emergency Planning Service. These arrangements were subject to Internal Audit review in 2010/11.

- The Council operates an Audit Committee which has been set up in line with CIPFA guidance which has responsibility for reviewing the adequacy of internal controls, monitoring the performance of Internal Audit, considering the External Audit Plan, monitoring corporate performance of the Council and considering the governance arrangements. It self assesses its performance and produces an Annual Report.

- The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect employees, volunteers, and anyone associated with the Council who have serious concerns about any aspect of practices encountered within the Council to come forward and voice those concerns without fear of reprisals. These arrangements are set out in the Council's Whistleblowing Policy which was the subject of review by the Audit Committee in 2010/11.

- The Council has adopted an Anti-Fraud and Corruption Strategy, which is subject to annual review.

- Trained and experienced people deliver and commission services. All posts have a detailed job description and person specification. Training needs are identified through the Performance, Appraisal, Review and Development Scheme (PARD). These arrangements were subject to Internal Audit review in 2010/11.

- Member training arrangements and development plan are in place. The Council is accredited with IIP and the Charter for Member Development (Local Government Yorkshire and Humber). The Council is also in the process of developing a Skills Strategy to future-proof the Council in relation to new ways of working linked to our Future Shape agenda.

- All meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority.

- The Council publishes a Forward Plan, which provides advance notice of Key Decisions to be considered by the Cabinet.

- In 2010/11 the Council had a duty to involve, inform and consult and has outlined its approach to addressing this duty through the development and delivery of the Community Engagement Framework. The Council also regularly seeks the views of its well established Citizen's Panel. These arrangements were subject to Internal Audit review in 2010/11.

- The Council operates a customer complaint, compliment and suggestion policy, "Encouraging Feedback, Improving Services". The Council is committed to making sure that customer feedback is used to help improve services and focus on the needs of customers.

- A Partnership Governance Protocol is set out in the Constitution. All partnerships the Council enters into are required to adhere to this protocol. The protocol was the subject of Internal Audit Review in 2010/11 and an action plan in response has been approved.

- The Council has a corporate approach to Project Management through its 'Framework for Successful Projects'.

- The Council has adopted the Department for Communities and Local Government approach to local transparency, regarding the publication of key financial information and data, to enable the public to understand and analyse how the Council spends public money.

## Review of Effectiveness

The Full Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's Annual Report, and also by reports and comments made by external auditors and other review agencies and inspectorates.

The Council maintains Overview and Scrutiny arrangements with an annual report being submitted to the Annual Meeting of the Council each year.

The Council produces a quarterly integrated performance report that details delivery against the Council's priorities, financial and performance management and emerging risks. This is considered by the Corporate Management Team, challenged and approved by Cabinet and then scrutinised through the relevant scrutiny panel. The budget setting process for 2010/11 continued to reinforce the redirection of resources to Council priorities and the delivery of significant efficiency savings. The budget proposals were considered within a process to ensure that they delivered both improved outcomes and value for money in the delivery of services. The Council openly consulted on its priority and budget setting during the year through a series of ward based and interest group sessions and via an online budget simulator. Feedback from these events and the simulator was used to shape the priorities for the next 4 years and how they will be resourced

The Council has a revised Local Code of Corporate Governance The arrangements for the operation and membership of the Standards Committee were reviewed and updated during 2007/8 and annual reports are produced.

The Annual Governance Statement was reported to and approved by the Audit Committee, which has responsibility for ensuring that robust corporate governance arrangements are in place to provide assurance that business is being conducted effectively and efficiently.

The process that has been applied in maintaining and reviewing the effectiveness of the system of governance includes the following:

- Progress against the action plan arising from the previous Annual Governance Statement has been reviewed

- The Monitoring Officer regularly monitors and reviews how the Constitution operates to ensure that its aims and principles are given full effect.

- The Council has delegated to the Audit Committee the responsibility for reviewing the adequacy of internal controls, monitoring the performance of Internal Audit, considering the external audit plan, monitoring corporate performance of the Council and considering the governance arrangements. In 2010/11the Council appointed an Independent Chair.

- The Council's Scrutiny Committees and members can call in any decision that has been made but not yet implemented, to enable them to consider whether the decision should stand.

- The Council's Management Team meet weekly to discuss strategic matters together with endorsing individual reports prior to them being considered by the Council's relevant Committees.

- As referred to earlier, the six principles have been adopted and mapped, as part of the Council's Assurance Framework. Each directorate was asked to demonstrate how it complies with each of the six principles. These are subject to a mid year review and areas with corporate implications are carried forward into the Corporate Annual Governance Statement. The adequacy and completeness of these assessments was subject to Internal Audit review.

- The Council's Internal Audit Section has responsibility for monitoring the quality and effectiveness of the systems of internal control. The audits are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Internal Audit Standards. Internal Audit carries out an annual review of its compliance against these standards set out by CIPFA. In addition, as part of the Accounts and Audit regulations 2011 the S151 officer carried out a review of the effectiveness of Internal Audit arrangements.

- In terms of the work carried out by Internal Audit for 2010/11, the Head of Internal Audit, in his annual report, reported that he could provide significant assurance on the Council's control environment subject to certain issues that he felt required reporting in the Annual Governance Statement.

- There are Internal Audit reports to Audit Committee on the progress of the work carried out by the Internal Audit Section, which summarises the findings and recommendations of each audit. The Council also has in place an Audit Working Group that considers Internal Audit reports in more depth and during 2010/11 have continued to seek the attendance of relevant Members and Officers where reports are of particular concern. As part of the audit programme those systems and processes which contribute to the Assurance Framework are subject to review on a cyclical basis.

- An assessment of the effectiveness of the Audit Committee in discharging its functions was reported within the Chair of the Audit Committee's Annual Report, which was presented to the Audit Committee on 23 June 2011.

- The annual review of the Constitution for 2010/11 was reported to the Annual Meeting of the Council on the $27^{th}$ May 2010.

- During 2010/11 an electronic survey of risk management in the Council was undertaken by the Audit Commission. Their report referred to marked improvements in embeddedness across the Council. The Council has recognised it needs to continue to develop its approach to partnership and strategic risk. In addition the Audit Committee has become more active in risk management, receiving reports on the risk register on a quarterly basis and challenging those areas where it appears that insufficient action is being taken to mitigate the risk.

- The Council's risk management arrangements provide reports to the appropriate governance bodies, bringing to their attention any significant risks. The Council reviews it risks within Directorate and Service Improvement Plans (Ref 53), risk workshops and Directorate Risk Action Groups (Ref 54), which inform the corporate planning hierarchy or programme management arrangements. New risks are identified throughout the year in reports and included on the risk register.

- The Council introduced high level procedures for review of strategic risks with Executive Directors, and subsequently at Strategic Risk Management Board. This has led to better alignment and understanding of risks as they relate to the Council Plan.

- The Council's business continuity plans and civil contingency arrangements were updated during 2010/11 and tested both in table top workshops ("Operation Watermark") and in reality through response to the high levels of snow in December 2010. The Council continues to prepare for external risks as identified in the Humber Community Risk Register.

- The Council's performance management framework is supported by the operation of performance staff within the Council, focusing on key performance results, trends and improvement. Corporate performance reports are formally issued every three months. With the advent of the new Council Plan the Council has introduced monthly performance discussions at JMB, in which Cabinet members and Executive Directors consider progress against the Council's strategic aims. Performance is challenged at these meetings, as well as through the scrutiny process. Corporate Management Team also plays a key role in challenging performance.

- The Council has a Data Quality Strategy, has accountable data quality officers in each directorate and has regularly reviewed and updated its action plan. The Data quality system is subject to annual internal audit. Our Internal Audit function has also recently reviewed data quality arrangements.

- The Council also seeks assurance from the work of external audit and inspectors.

- The Council in 2007/8 reviewed its environmental sustainable arrangements to produce a 'Greening the Council Action' Plan. The Council has since created a Carbon Management Programme and established a £500k revenue-recycling invest-to-save fund to deliver commitments for the Council to reduce carbon emissions from our estates and operations by 25% from 2007/08 levels by 2013. Two audits have been undertaken by the Council's Internal Audit team: on environmental sustainability, and energy monitoring. These audits have identified varying degrees to risk and have identified the need for the Council to consider its environmental aspirations and to refocus its future direction. As a result, an Environment and Climate Change Strategy has been prepared and will be adopted in 2011. At a sub-regional level and led by North East Lincolnshire Council, a project has been commissioned to identify the risks to services from the effects of climate change. This project is expect to report in autumn 2011 and will provide the Council with an evidence base from which services can be more resilient to climate change and the impacts of extreme weather.

- The Council has produced an Annual Fraud Report, summarising the Council's activities around fraud prevention during 2010/11. Its arrangements for managing the risk of fraud) were assessed by Internal Audit against CIPFA benchmarks, and this led to the production of an action plan.

- The Chief Financial Officer has carried out an assessment of the Council's financial arrangements compared to the standards laid out in the CIPFA document *"The Role of the Chief Financial Officer in Public Service Organisations"*

The review of the effectiveness of the governance framework and system of internal control by the Cabinet, Audit Committee and Council Management Team has identified key issues. These issues are referred to in the section headed 'Significant Governance Issues'.

In saying the above, systems of control cannot provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is, therefore, intended to provide reasonable assurance. There is an ongoing process in place to identify, evaluate and manage key risks, and these are reflected in the audit plan and are subject to separate reports during the year.

## Significant Governance Issues

The Cabinet, Audit Committee, and Council Management Team have considered the evidence provided with regards to the production of the Annual Governance Statement.

In considering the identification of significant governance issues, the following themes have been applied:

(i) Compliance with frameworks
(ii) Cultural change
(iii) The development of fundamental systems

Overall the Governance framework is viewed as sound though the Council recognises that improvements are required. The Council is constantly looking to improve its governance framework and has identified a number of actions needed to further strengthen existing arrangements:

| Issue | CMT lead | Current position | Action(s) |
|---|---|---|---|
| **Fragility of the current payroll system** | Liz Jones | HRPF Project implementation in progress | Monitor delivery of HRPF Project. Parallel running of new/old systems planned for the period June – August 2011 with full go-live August 2011 (see HRPF project management arrangements).<br><br>Contingency arrangements pre and post implementation are kept under review. |
| **Partnership governance protocol insufficiently embedded across the organisation** | Rob Walsh | Actions agreed following Internal Audit follow up report. The partnership environment has undergone significant change following the change in approach from the coalition government, requiring locally determined approaches to the increasing need for joint working to deliver locally defined and agreed outcomes.<br><br>Work is now required to agree the local approach in terms of what partnership structure and governance we need, how this could be supported / enabled via a new approach to neighbourhood management / governance and how this provides a local "action plan" for localism / community empowerment.<br><br>Delivery of the actions outlined in the follow up audit report should address these issues. | As set out in the Internal Audit update report dated 9 May 11. |
| **Environmental Sustainability agenda insufficiently embedded across the organisation** | Marc Cole / Andrew Milner | The Council's strategic position on environmental sustainability is being reviewed. The Council's Environmental Action Plan is obsolete.<br><br>Two internal audit reports, one on environmental sustainability and one on energy monitoring have highlighted organisational risks (owing to gaps in organisation, resources and processes) that need to be addressed.<br><br>Some resources are in place to be able to deal with these challenges. A ring-fenced invest-to-save budget for energy efficiency is established but not used effectively due to gaps in expertise.<br><br>There is a strategic risk associated with compliance of the carbon reduction commitment. | Adopt a strategic framework on environmental sustainability and, in doing so, identify corporate outcomes.<br><br>Establish an environmental sustainability board to provide oversight and delivery of the framework and its outcomes. Implement action identified within the audit reports.<br><br>Ensure compliance is achieved against the carbon reduction commitment.<br><br>Identify resources required to deliver effectively against the agenda, particularly on carbon management. |

| Issue | CMT lead | Current position | Action(s) |
|---|---|---|---|
| **Neighbourhood Management arrangements** | Andrew Milner | The Council agreed with partners that we needed to adopt a neighbourhood approach to ensure that we were more effectively engaging with different parts of our community and addressing issues outside of a “one size fits all” approach.<br><br>Some progress has been made but this has been slower than expected and has not been universally supported by all key players. A review of the arrangements was undertaken with a series of recommendations put forward, that will now be considered as part of the partnership / governance review outlined in the Partnership Governance Section above. | Undertake community governance review as part of review of overall partnership arrangements outlined in the Partnership Governance Audit Report |
| **Regeneration** | Marc Cole | In June 2010 the Council entered an innovative partnership with Balfour Beatty in the delivery of physical regeneration, property and technical services. Inevitably in setting up such a partnership there will be some lessons to be learnt in the governance and operational arrangements, and further developing such arrangements within the partnership should remain a focus in 2011/12.<br><br>In addition, although internal audits of regeneration projects found that good governance arrangements were in place, the progress on delivering the schemes was not at the pace originally anticipated. | |

# ANNUAL GOVERNANCE STATEMENT - 2010/2011

We are satisfied that the steps outlined above will improve our governance and control arrangements and their implementation and operation will be monitored as part of our next annual review. A detailed action plan will be developed by the Council Management Team and submitted to the Audit Committee and Cabinet for approval.

The action plan will be monitored by the Strategic Risk Management Board on a regular basis.

Signatures

LEADER OF THE COUNCIL
DATE:

CHIEF EXECUTIVE
DATE:

MONITORING OFFICER
DATE:

S.151 OFFICER
DATE:

# GLOSSARY

**ACCRUAL -** A sum included in the accounts to recognise income earned or expenditure incurred during the financial year, but for which no actual receipt or payment has been made.

**ACTUARIAL GAINS AND LOSSES -** The changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

**ACTUARY -** Pension expert**.**

**AMORTISATION -** The gradual elimination of liabilities, such as the capital financing of intangible assets, in regular payments over a specified period.

**ASSETS -** An item having value to the Authority in monetary terms. Assets are categorised as either current or non current:

- a **current** asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock)
- a **non current** asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be **tangible** e.g. a school building, or **intangible**, e.g. computer software licences.

**BEST VALUE ACCOUNTING CODE OF PRACTICE -** The CIPFA Best Value Accounting Code of Practice provides guidance on the content and presentation of costs of service activities**.**

**CAPITAL CHARGES -** A charge to services (depreciation) to reflect the cost of non current assets used in the provision of services.

**CAPITAL EXPENDITURE -** Expenditure to acquire, enhance or extend the useful life of non current assets used in providing services beyond the current accounting period.

**CAPITAL FINANCING -** The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, capital receipts, capital grants and contributions or direct revenue financing.

**CAPITAL RECEIPTS -** The proceeds from the disposal of land and other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used for revenue purposes, other than to cover non current asset disposal costs.

**COLLECTION FUND -** A separate statutory fund recording the expenditure and income relating to council tax and non-domestic rates and identifies the way in which the Fund distributes precepts to the precepting authorities.

**COMMUNITY ASSETS -** Assets that the local authority intends to hold in perpetuity, that has no determinable useful life and that may have restrictions in their disposal. Examples of community assets are parks and historical buildings.

**CONSISTENCY -** The concept that the accounting treatment of like items within an accounting period and from one period to the next one is the same.

**CREDITOR -** Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.

**DEBTOR -** Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.

**DEPRECIATION -** The measure of the cost or revalued amount of the benefits of the non current asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a non current asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

**FINANCE LEASE -** A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**HERITAGE ASSETS -** Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include civic regalia, museum and gallery collections and works of art.

**IMPAIRMENT -** A reduction in the value of a non current asset to below its carrying amount on the Balance Sheet.

**IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS) –** International Financial Reporting Standards cover particular aspects of accounting practice, and set out the correct accounting treatment.

**INFRASTRUCTURE ASSETS –** Non current assets belonging to the Council that do not necessarily have a resale value (e.g. highways) and for which a useful life span cannot be readily assessed.

**INVESTMENT PROPERTY –** Non current assets held solely for the earning of rental income and/or for capital appreciation.

**MINIMUM REVENUE PROVISION (MRP) -** The minimum amount that must be charged to revenue each year in order to provide for the repayment of loans and other amounts borrowed by the Council in accordance with statutory regulations.

**NNDR (NATIONAL NON-DOMESTIC RATE) -** National Non-Domestic Rate NNDR is a standard rate in the pound set by the Government on the assessed rateable value of properties used for business purposes.

**OPERATING LEASE -** A lease where the ownership of the non current asset remains with the lessor.

**POST BALANCE SHEET EVENTS -** Those events, both favourable and unfavourable, of such materiality that their disclosure is required for the fair presentation of the Council statements, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

**PRECEPT -** The levy made by precepting authorities on billing authorities.

**PROPERTY, PLANT AND EQUIPMENT –** Non current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory of discretionary responsibility.

**PROVISION -** An amount set-aside for liabilities or losses that are certain to arise but owing to their inherent nature cannot be quantified with any certainty.

**PWLB (PUBLIC WORKS LOAN BOARD) -** A central government agency that provides loans for one year and above to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE -** Expenditure which may be properly capitalised, but which does not result in, or remain matched with, tangible fixed assets. An example would be capital expenditure on improvement grants.

**VOLUNTARY REVENUE PROVISION (VRP) -** Additional amounts charged to revenue each year in order to provide for the repayment of loans and other amounts borrowed by the Council. Examples of such charges would be provisions for short-lifed assets such as vehicles.